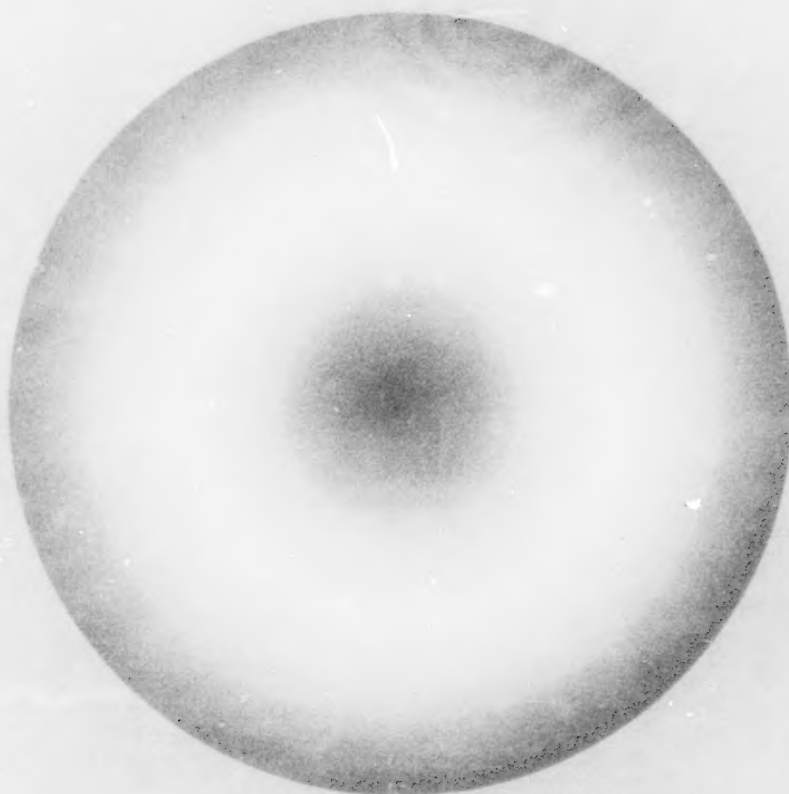


The New Face of Poverty

Income Security Needs of Canadian Families



Economic Council of Canada
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The New Face of Poverty

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ECONOMIC COUNCIL OF CANADA

The New Face of Poverty

Income Security Needs of Canadian Families

The former members of the Economic Council of Canada contributed to this report; however, they did not review the final text.

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Foreword

The war against poverty stalled in the 1980s. High unemployment levels and the growth of low-paying, nonstandard jobs raise the risk of an increase in poverty rates for working-age families. At the same time, the need to reduce the federal deficit has made it difficult for governments to absorb more of the burden of alleviating poverty.

The New Face of Poverty provides new insights into poverty in Canada by tracking the incomes of families over a five-year period, showing changes in family structure and in the sources of income. The findings indicate that the incomes of the poor are highly volatile. It is true that almost half of the poor population remains poor for extended periods of time. Yet, every year many Canadians are able to leave poverty, while at the same time roughly similar numbers become poor. As a result, it is estimated that as many as one in three Canadians will be poor at some time in their working life. (About 13 per cent are poor in a typical year.) Even more important, a very high proportion of the poor have some attachment to the work force.

The report also explores the way in which the tax-transfer system (the safety net) responds to this volatility in incomes. Unemployment insurance was designed to protect the incomes of Canadians when they suffer temporary job loss. The research shows that many people develop a dependency on it. Social assistance – the safety net of last resort – has mitigated the worst effects of poverty over the years. But it lacks adequate work incentives for recipients, and it provides insufficient opportunities for people to upgrade their work skills. In short, those two programs fail to meet the need of a large proportion of the low-income population to adapt to current labour market conditions.

This analysis leads to two sets of policy conclusions. The first aims at long-term reform – a major realignment of income security programs for the working-age population. This would enable governments to increase the efficiency of their efforts to reduce poverty and to help Canadians to become more self-reliant in the face of a rapidly changing economy. This reform could be achieved without additional public spending, though more money would certainly make the job easier. But the reform is so fundamental that it will take some time to work out technical issues and to build the necessary consensus. Accordingly, a second set of proposals identifies a number of modifications to existing income-security programs – including a greater commitment to employment-related services.

I would like to take this opportunity to thank the project staff – especially Brian Powell, David Beavis, and Keith Patterson – who worked long and hard to create the database that is at the core of this research. I also wish to thank the Advisory Committee, which was chaired by H. Graham Wilson. The report is signed by the Chairman and Deputy Chairmen of the Economic Council of Canada. While the other members of the Council had a major influence on the direction of the research and on its conclusions, the decision to abolish the Council was made before they had the opportunity to comment on the final draft.

I hope that other researchers will pursue the pathways that have been opened up by this new database, which was created by a partnership between the Economic Council of Canada and Statistics Canada, with valuable inputs from the provinces of Quebec and Nova Scotia.

Judith Maxwell
Chairman

The New Face of Poverty

READER'S NOTE

The reader should note that various conventional symbols similar to those used by Statistics Canada have been used in the tables:

- . . figures not available
- nil or zero.

Details may not add up to totals because of rounding.

1 Introduction

Economic and social conditions in Canada have undergone a profound transformation in recent decades. Although some of these changes have been for the better, others have placed increasing stress on the safety net designed to protect the incomes of needy Canadians. In the face of mounting costs and huge government deficits, some observers have called for program reductions that could seriously imperil the income security of many Canadians. Indeed, a number of the more recent changes to the system have already resulted in lower benefit levels.

Income security, as provided by government programs, is part of the daily lives of Canadians. Today, senior citizens are much better off than were their parents when they retired. Workers who experience interruptions in employment are more financially secure than the unemployed of 30 and 40 years ago. Families with children have a variety of income supplements available to them. All citizens also have access to basic education and health-care services, and when they are in need, to other social services – generally without charge.

While Canadians can be proud of their social support system and of the progress that has been achieved, they must not be complacent on the subject of income security; the system is being severely strained – almost to the limit. Growing numbers of people are unemployed or have low incomes. As a result of these demands on resources, many of the anti-poverty programs are subjected to financial stress.

A large number of individuals and families experience difficulty in achieving even basic self-sufficiency. Too many teenagers drop out of school, and even graduates have trouble finding jobs. An increasing number of unemployed Canadians, many with dependent children, face considerable hardship as they search for work, while others struggle to support their families with either part-time or low-paid work. These difficulties are particularly acute for many single mothers, as they bear the additional burden of raising their children alone.

Current indicators suggest that the problem may worsen rather than improve during the 1990s. The Council's Statement, *Good Jobs, Bad Jobs* (1990), noted that the share of middle-level jobs in the economy was diminishing and the proportion of both high- and low-paying jobs, increasing.

There is no sign that the disparities associated with this polarization are abating.

Our objective in this report is to identify the ways in which changing economic and social structures affect those Canadians who are most in need. We seek to improve the understanding of the issues and to assess the effectiveness of income security programs.

In dealing with these concerns, important questions are raised. What minimum standard of living should be provided for those in need? What is the role of the state in providing support services that facilitate greater economic self-sufficiency? How effective are current government transfer programs, especially in the context of the constantly changing social and economic environment? Does increasing the amount of income that is redistributed to the poor reduce the efficiency of the economy? These questions are contentious because they force us to re-examine our values and to assess the practicality of different options. They strike at the very heart of fundamental issues, such as the extent to which individuals and families should be expected to assume responsibility for coping with difficult situations (such as job loss or family breakdown). These issues have no easy solution.

The discussion is further complicated by the question of who is poor. While the poor can be defined as those who lack the resources required to enjoy the basic necessities of life, there is no broad consensus on exactly how to measure "resources" and "necessities of life." For example, while indoor plumbing is still a luxury for many Third World citizens, the vast majority of Canadians now consider it a basic necessity.

Because of subjective perceptions, we must take into account the values of the community when measuring poverty. Over the past two decades, a variety of definitions have been advocated, and no doubt there will be more. While each may be useful in its own way, perhaps the most important question is not which definition is correct, but rather whether similar conclusions are reached by using different measures.

The most widely used measure of poverty in Canada is the set of "annual low-income cut-offs" (LICOs) established

by Statistics Canada during the 1960s.* There is a LICO for each family size, and LICOs also vary according to the size of the community in which the family lives. In simple terms, each LICO, which is a measure of family income, is set so that all families with less than that amount of income, on average, spend at least 60 per cent of their income on the basic necessities of food, clothing and shelter. Because these measures are well recognized and represent a middle-of-the-road approach to counting the poor, we use them in our assessment of the scope of poverty in Canada. At the same time, we also examine whether trends in poverty rates would be significantly different if other poverty measures were used.

The Economic Council first addressed the issue of poverty in its Fifth Annual Review, published in 1968. The face of poverty has changed dramatically since then. Overall, the incidence of poverty among Canadians is considerably lower than it was then. Moreover, today's poor are in less desperate straits than those of 20 years ago, as measured by the "depth" of poverty (i.e., the extent to which average incomes fall short of the poverty threshold).

Most of this lessening in the overall presence of poverty reflects a major reduction in its incidence and depth among the elderly population, thanks to better income security programs for those aged 65 and older. Progress for other groups, however, has not been nearly as impressive. While the 1970s and early 1980s saw modest decreases in the incidence of poverty among those in the working-age population (i.e., those living in families headed by adults aged less than 65), virtually no advances have taken place since then. The incidence of poverty among single people (including single mothers) is particularly severe. Accordingly, this report focuses on the issue of poverty among working-age Canadians and their children, and on the risks faced by this group.

Our report does not deal with all aspects of poverty in Canada; nor does it suggest a complete set of potential remedies. We had neither the time nor the resources to deal with issues regarding the elderly poor, for example. Nor did we explore to any extent the various needs of those with mental and physical handicaps or the growth of food banks and other in-kind services to the poor. Lack of "hard" data

on the economic situation of Native peoples prohibited detailed study of that group.

As well, we have not dealt specifically with poverty among children. Child poverty is in significant measure a family issue and thus should be considered at the family level. The remedies to child poverty are to be found principally in programs that provide financial assistance to families and help parents to become self-sufficient. A special report dealing with these issues was recently published by the House of Commons Standing Committee on Health and Welfare, Social Affairs, Seniors and the Status of Women under the title *Canada's Children: Investing in our Future*.

Our own research was concentrated in three areas:

- the trends in poverty among families of different age groups and selected characteristics;
- the dynamics of poverty - that is, the pattern of movements into and out of poverty; and
- the effectiveness of government transfer programs in dealing with poverty and of employment-related services designed to help the poor to become self-reliant.

Much of our analysis is based on a new information source developed in cooperation with Statistics Canada, which enabled us to select a sample of Canadians and track them, and their incomes, over a period of years. These "longitudinal" data enabled us to explore the income changes of all classes of Canadians and, in particular, to focus on the dynamics of poverty. They suggest that perhaps one third of Canadians are, or will be, poor at least once over their careers - and not just during their student days - and may require government support to help them through those bad times.

In addition, we explore the extent to which people who have repeatedly relied on unemployment insurance have become dependent on it, based on another longitudinal data set supplied by Statistics Canada. We also developed simulation models to analyse social assistance programs and assess their incentive or disincentive effects. We found that these programs often act as a barrier to many who are able to work and would otherwise be willing to do so.

In our view, the continuously changing face of poverty calls for a fresh look at the income security system as a whole. Our conclusions are not only based on new information and on our analysis of the issue of poverty but also on the findings of related studies that have been completed in recent years. These include the reports of the Royal Commission on the Economic Union and Development Prospects for Canada (Macdonald Commission), the Commission of

* The low-income cut-offs are periodically updated by Statistics Canada. Throughout this report, we have used the 1978-based after-tax LICOs, adjusted for changes in the price level. Statistics Canada is currently investigating a new low-income measure based on some percentage of median income. This new measure is not yet available, however.

Inquiry on Unemployment Insurance (Forget Commission), and the Ontario Social Assistance Review Committee (Thompson Committee), as well as statements made by such groups as the National Council on Welfare.

In developing our recommendations, we were guided by what we believe to be three generally accepted premises:

- virtually all Canadians want to be self-reliant;
- governments have a responsibility to efficiently provide a safety net for those who have difficulty becoming self-reliant; and
- there exists a broad role for governments to help all Canadians achieve self-sufficiency.



2 Reducing poverty: opportunities and constraints

In Canada, market forces are largely responsible for shaping the distribution of income. Not surprisingly, countries with highly uneven distributions of market income typically find that a large number of their residents are poor and in need of financial assistance. Conversely, countries with less uneven market-income distributions tend to have less need for measures that will redistribute income in a more equitable manner.

Both the rate of growth and the distribution of market income – earnings from work or return on investment – play a fundamental role in determining the practical scope for redistributing income. More specifically, growth in real market incomes, especially at the higher end of the income scale, will generally make the tax increases required to finance the expansion of transfer programs more palatable. Income stagnation among large groups, however, will often lead to a sense of tax overburden and to considerable resistance to any further redistribution of incomes. Thus growth in real market income, depending upon how it is distributed, can both reduce the need for redistributive measures and, at the same time, increase the scope for such measures.

In examining the distribution of market income in Canada, we compare the current situation with that in earlier decades; we also compare Canada's distribution with those in a number of other countries. We then consider what the market may provide in the coming decade. To do this, we assess the prospects for increases in real income per capita and for changes in its distribution. We also examine what governments have done to redistribute income to those in need, again in comparison with years gone by and with the amount of redistribution achieved in other countries. Finally, we consider the opportunities and constraints for further income redistribution to those still in need.

Distribution of market income

Market incomes are essentially the private incomes of families (including unattached individuals), derived from working or investing. Some income is deferred in the form of private pensions and other savings. Consequently, it is appropriate, in discussing income security issues, to use a concept of market income that includes both current factor income (e.g., take-home wages) and current proceeds from

deferred components of income (e.g., pension plan payments).

Consistent national data on the distribution of the market incomes of Canadian families are available only from the early 1970s onward. But indirect evidence – including the high prevalence of two-adult, one-earner families and of low levels of unemployment, as well as a broadening base of collective bargaining in the period following the Second World War – suggests that the distribution of private income in Canada tended towards greater equality over the early postwar decades.

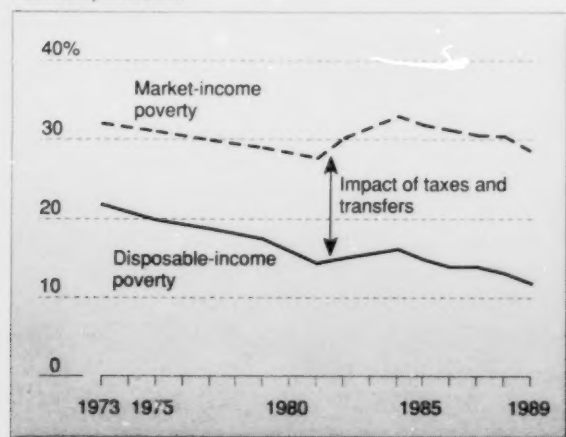
There is, however, growing evidence of a reversal in this long-term trend, with market incomes now displaying greater disparity. We have already noted that the earnings of Canadians have become more polarized since the early 1970s. Also, the rate of unemployment was high by historical standards throughout the 1980s and into the 1990s. These factors have undoubtedly affected those at the bottom of the income scale.

Figure 1 illustrates a downward trend from 1973 to 1981 in the proportion of Canadian families with market incomes below our selected poverty thresholds. However, this decline was entirely offset by events in the three years immediately following the 1981 recession, with the result that the overall incidence of market-income poverty actually increased from 32 per cent in 1973 to 33 per cent in 1984. While there was some reduction in poverty rates over the second half of the 1980s, the overall incidence of market-income poverty in 1989 was still above the 1981 level. Thus it would appear that the growing polarization of labour incomes and the higher levels of unemployment previously noted have indeed contributed to an increase in the number of those with market incomes below our chosen poverty lines. Moreover, if statistics on the incidence of poverty were now available for 1990 and 1991, they would likely be higher than in 1989, in light of the recent recession.

How does Canada's distribution of market income compare with that of other countries? In a study of the distribution of income in seven industrialized countries – Canada, the United States, the United Kingdom, West Germany, Sweden, Norway, and Israel – current factor incomes (i.e., excluding occupational pensions) were found to have been

Figure 1

Annual incidence of poverty,¹ total population, Canada, 1973-89



1 Defined as the proportion of people whose income falls below either market-income or disposable-income LICOs, as defined in the text.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

more evenly distributed in Canada in the early 1980s than in four out of the six other countries (Table 1). Only Sweden had a higher share of current factor income among the bottom 20 per cent (quintile) of the population ranked on the basis of total family income. (While Norway had a smaller share of current factor income in the bottom quintile, it also had a smaller share among the top 20 per cent, and thus its income distribution might be considered to be more

"equal" than Canada's.) Moreover, a comparison of the ratio of the shares of current factor income in the highest and lowest quintiles suggests that, with the exception of Sweden, Canada had the most "equal" distribution of income from labour and capital among these seven countries at that time.

Since then, labour-market trends in Canada have contributed to a widening of the disparity in family market incomes. Partial evidence suggests a similar trend in other countries as well; as a result, the overall distribution in this country may still rank as one of the more equal among industrialized nations.

In summary, there is a growing inequality in Canada's market incomes that, over time, could result in a "ratcheting-up" of the number of the poor and a corresponding increase in the demand for additional income redistribution. Even though Canada's market-income distribution may remain more equal than those of many other countries, the pressures to offset these market trends are likely to grow. This leads to questions about the prospects not only for reducing current poverty but also for responding effectively to changing needs. What ultimately matters for consumers, however, is disposable income.

Redistribution of income

In the postwar years (up to the early 1980s), there was a growing trend towards redistributing incomes as reflected by the continuous introduction and expansion of government transfer programs. Unemployment insurance (UI) and

Table 1

Distribution of factor income, by quintile, in seven countries, 1980

	Sweden	Canada	Israel	Norway	United States	United Kingdom	West Germany
(Per cent)							
Income quintile:							
Lowest	6.5	5.4	4.9	4.4	4.2	4.0	2.3
Second	18.5	14.9	11.6	17.0	12.8	15.0	13.8
Third	18.8	19.2	16.0	19.6	19.2	19.9	17.1
Fourth	23.0	24.5	24.3	24.2	25.1	24.9	22.0
Highest	33.2	36.0	43.2	34.9	38.8	36.3	44.7
Ratio of highest/lowest	5.1	6.7	8.8	7.9	9.2	9.1	19.4

SOURCE Michael O'Higgins, Guenther Schmaus, Geoffrey Stephenson, "Income distribution and redistribution: a microdata analysis for seven countries," *Review of Income and Wealth*, series 35, no. 2 (June 1989):107-31.

family allowances were introduced in the 1940s; universal old-age pensions began in the early 1950s; and the system of social assistance benefits to those in need was consolidated under the Canada Assistance Plan (CAP) during the 1960s. This was followed by the introduction of the Canada and Quebec Pension Plans (CPP/QPP), as well as the Guaranteed Income Supplement (GIS) for the elderly. The 1970s saw a major expansion of the UI program, as well as enhancements to child and elderly benefits.

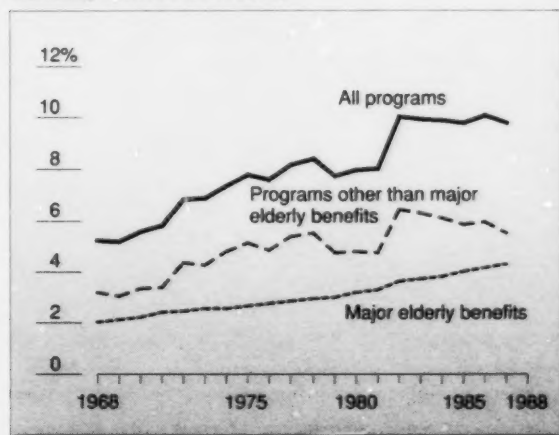
Initiatives in the 1980s focused more on support for employment-related services, such as job training and skill upgrading. At the same time, however, there were some modifications to existing programs that lowered benefits for some people. For example, family allowances were partially de-indexed and, together with Old Age Security (OAS) benefits, were fully "taxed back" for higher-income families. Also, for most regions of Canada, eligibility requirements for UI benefits were made more restrictive and benefit periods were shortened. These trends continued into the 1990s when, for example, more UI funds were allocated to job training and family allowances were eliminated.

The data available on the spending of governments on financial assistance over the past quarter-century provide more specific indications of this continuing expansion. In 1968-69, for example, government expenditures on the major income-security programs were estimated at 5.2 per cent of the gross domestic product (GDP). This proportion was about 6.8 per cent in 1973-74 and had risen to 10.0 per cent by 1982-83 (Figure 2). Since then, the relative spending on these programs has remained virtually constant.

Financial assistance is provided at all levels of government. The major transfer programs include benefits for the elderly (CPP/QPP benefits, OAS benefits, GIS, and Spouse's Allowance payments, as well as related provincial supplements), income support for the population at large (UI benefits, workers compensation payments, social assistance, and other related benefits), and transfers in respect of children (family allowances, the "child tax credit," and related provincial supplements). Excluded from our analysis are nonrefundable income-tax credits, as well as the federal income-tax credits aimed at offsetting the impact of consumption taxes. As reflected in Figure 2, the largest increases in public spending have been among those programs targeted at the elderly. The major transfers to the elderly rose, as a proportion of all income-security expenditures, from about 39 per cent in 1968-69, to approximately 44 per cent in 1987-88, as the result of a large increase in the proportion of the elderly in the population, as well as enrichment of benefit levels.

Figure 2

Spending on income security programs,¹
Canada, 1968-69 to 1987-88



¹ As a proportion of GDP.

SOURCE Estimates by the Economic Council, based on data from Health and Welfare Canada.

This expansion of income transfers has effectively offset the growing inequality in labour incomes, as we noted in *Good Jobs, Bad Jobs*. Analyses of the distribution of total family income in Canada (i.e., market income plus transfer income) show very little change over the last 20 years in the share of total national income enjoyed by each 20-per cent segment of the population.

The other half of the income redistribution story consists of the various personal income taxes (including payroll taxes) that are levied to finance income transfers. While some of these taxes are clearly linked to specific expenditure programs (e.g., UI and CPP/QPP benefits), the largest proportion of income security spending is funded from general government revenues. Some nonpersonal taxes (e.g., employers' contributions to payroll taxes) are also directed to income security funds. As is usually done in these types of analyses, we have assumed that all personal income taxes, but not other taxes, are redistributive measures. (While other taxes do affect the redistribution of incomes to some extent, we did not undertake the extensive work that would have been necessary to assess that impact.) In fact, one could argue that all personal taxes reflect the measurement, to some extent, of the redistribution of incomes in the form of public services such as health, education, defence, etc. Thus we have defined income redistribution as the difference between the distribution of market income and the distribution of disposable income that occurs as a result of personal income taxes and cash transfers.

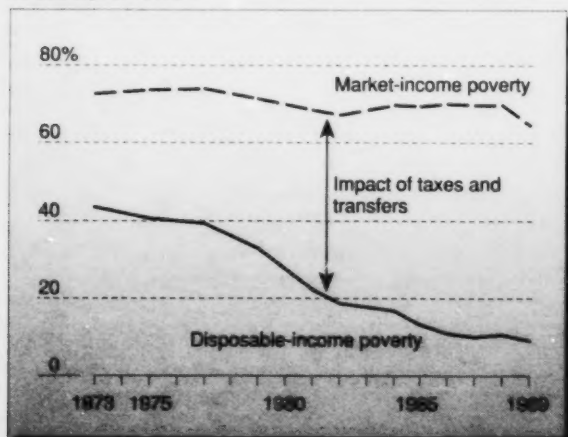
The combined impact of both taxes and transfers on the incidence of poverty is also shown in Figure 1 for the period 1973-89. Clearly, the various redistributive measures sponsored by governments have substantially lowered the poverty rate in Canada. The magnitude of this impact gradually increased over the 1970s and early 1980s. For example, the average incidence of disposable-income poverty between 1973 and 1989 was 16 per cent, as compared with an average of 30 per cent on a market-income basis. In 1973, on an after-tax basis, about 10 per cent fewer Canadians were poor than was the case on a market-income basis. By 1984, this figure had risen to 17 per cent. However, there was very little change in the impact of the tax/transfer system on poverty rates over the second half of the 1980s.

These changes reflect, for the most part, the large increases in income security spending on the elderly over the last two decades. While market-income poverty for this group declined by only 8 percentage points between 1973 and 1989 (Figure 3) the decrease in disposable-income poverty rates attributable to changes in taxes and transfers, mainly higher levels of government transfers, represented a more dramatic change during this period. As a result, the proportion of elderly families with disposable incomes below our selected poverty thresholds dropped precipitously – from 43 per cent in 1973 to 9 per cent in 1989.

Poverty rates among families with a working-age head also declined over this period, but much less dramatically.

Figure 3

Annual incidence of poverty,¹ elderly population, Canada, 1973-89

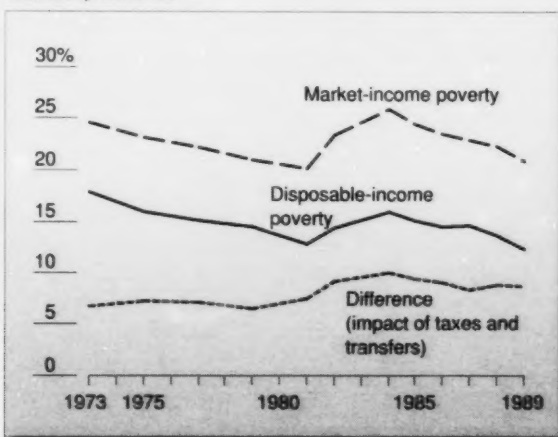


¹ Defined as the proportion of people whose income falls below either market-income or disposable-income LICOs, as defined in the text.

Source: Estimates by the Economic Council, based on data from Statistics Canada.

Figure 4

Annual incidence of poverty,¹ working-age population, Canada, 1973-89



¹ Defined as the proportion of people whose income falls below either market-income or disposable-income LICOs, as defined in the text.

Source: Estimates by the Economic Council, based on data from Statistics Canada.

As shown in Figure 4, the incidence of market-income poverty for these families fell by just under 4 percentage points between 1973 and 1980. (The impact of the 1981 recession is even more evident here.) At the same time, there was some improvement in the extent to which tax and transfer changes reduced poverty rates for this group. Together, these marginal improvements in market income and modest enhancements in income-redistribution measures contributed to a reduction in the rate of disposable-income poverty among families in this group from 18 per cent in 1973 to 12 per cent in 1989. However, *all* of the progress achieved in redistributing incomes to the working-age poor was made in the 1970s and early 1980s. Since then, there has been a small decline in the impact of taxes and transfers on poverty among the working-age population.

As noted above, market incomes were more evenly distributed in Canada in the early 1980s than in four of the six other countries included in a comparative analysis of incomes. Despite the fact that redistributive efforts in this country contributed to an even greater narrowing of the gap in incomes, these efforts were not as extensive, or at least not as effective, as those in some of the other countries. As a result, in terms of disposable income Canada "lost ground" to Norway, the United Kingdom, West Germany, and Israel. More specifically, Canada's ranking moved from second to fifth in terms of the share of factor income enjoyed by the poorest 20 per cent of the population.

In a related study of ten countries (in which Australia, the Netherlands, and Switzerland were added to the seven countries listed above), Canada ranked sixth in terms of the equality of its distribution of adjusted disposable income (i.e., after taking taxes and transfers into consideration and adjusting for differences in family composition). The countries with more even distributions during this period were Sweden, Norway, West Germany, the United Kingdom, and Switzerland, in that order. There is no evidence yet to suggest that Canada's relative position has changed since then.

We recognize that these international comparisons of redistributive measures do not take into consideration the many "in-kind" public benefits (such as universal health-care services and public education) enjoyed by Canadians. But similar services are provided in most of these other countries, and thus the comparisons do provide some indication of Canada's relative position in terms of redistributing incomes for the purposes of ensuring a basic standard of living for all citizens.

The extent to which Canada redistributes a smaller portion of its national income than do other industrialized nations is also reflected in international comparisons of overall tax revenues and of spending on income security

programs. Table 2 shows Canada's spending on income security and related programs in 1985 relative to 18 other member countries of the Organisation for Economic Co-operation and Development (OECD). While some of the differences observed can be attributed to differences in age structure and in the organization of pension programs, it is clear that despite a sense of tax/transfer overburden on the part of many Canadians, the extent to which income is redistributed in Canada is more modest than in many European countries. At the same time, Canada's overall efforts are slightly larger than those of its largest trading partner, the United States, although there are important differences in the income security systems of the two countries.

These findings are reinforced by Figure 5, which compares total tax revenues in Canada with all of its 23 OECD partners in 1989. While only a portion of these revenues was spent on income security programs, Canada's ranking on the basis of tax revenues is quite consistent with its ranking on the basis of income security expenditures.

On balance, these comparisons suggest that Canadian income transfers for redistributive purposes are modest in relation to those of other industrialized countries. While decisions regarding the redistribution of incomes should

Table 2
Social spending (excluding education and health)¹ in selected OECD countries, 1985

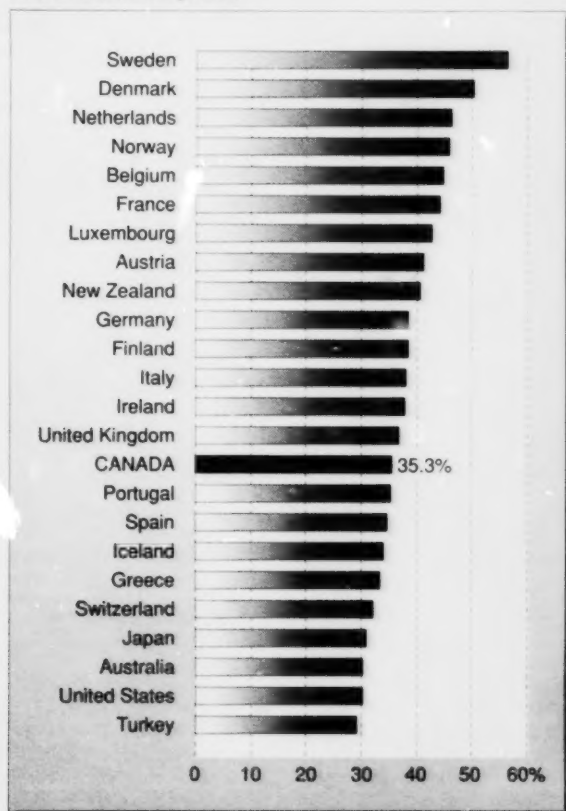
	Pension programs	Unemployment programs	Other programs	Total social programs
	(Per cent)			
Denmark	8.5	3.2	9.8	21.5
France	12.7	2.8	5.8	21.3
Austria	14.5	0.8	3.8	19.1
Netherlands	10.5	3.3	4.8	18.6
Sweden	11.2	0.7	..	..
Italy	15.6	0.8	..	15.4
West Germany	11.8	1.5	1.7	15.0
Norway	8.0 (1984)	0.7 (1984)	..	..
Ireland	5.4	3.6	3.3	12.3
Greece	10.7	0.4	1.0	12.1
New Zealand	8.1	0.6	2.6	11.3
Finland	7.1 (1984)	0.5 (1984)	..	11.0
United Kingdom	6.7	1.8	2.2	10.7
Canada	5.4	3.3	1.6	10.3
Spain	8.6 (1980)	2.1 (1984)	..	8.7
United States	7.2	0.4	0.9	8.5
Switzerland	8.1 (1984)	0.3	..	..
Australia	4.9 (1984)	1.3	..	7.8
Japan	5.3	0.4	1.4	7.1

¹ As a proportion of GDP.

Source: Estimates by the Economic Council, based on data from the OECD.

Figure 5

**Tax revenues as a proportion of GDP,
OECD countries, 1989**



SOURCE Based on data from the OECD.

reflect Canadian values, it should also be clear that many other industrialized countries do more. And among them are countries that have enjoyed much faster rates of productivity growth than has Canada in recent years. In fact, it appears to us that there is no obvious correlation between successful economic performance and social spending. What, then, are the opportunities and constraints for further efforts to reduce poverty through tax and transfer programs?

The macroeconomic environment

Research by the Council and others has clearly demonstrated the linkages between poverty rates and macroeconomic performance. Over the period 1971-84, it was found that an increase in GDP per capita could be expected to decrease poverty in Canada, while an increase in the unemployment rate could, in most cases, be expected to increase it.

In its 28th Annual Review (1991), this Council foresaw the possibility of an annual average growth rate in the economy of 3 to 4 per cent over the 1990s, provided that Canadians and their governments adjusted to the changing economic environment. The key to real-income growth is increased productivity. The outlook here is one of guarded optimism after nearly two decades of low and declining rates of productivity growth (Figure 6), particularly during the period of recovery that followed the 1981 recession.

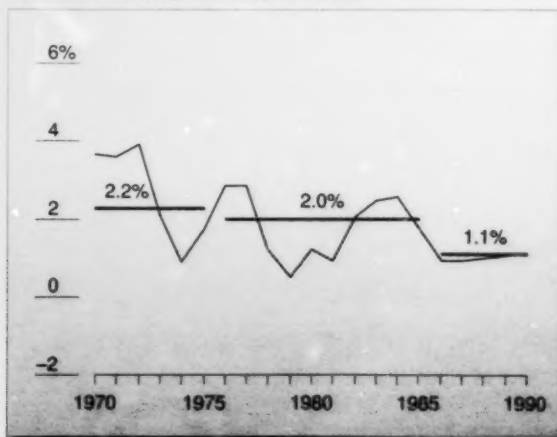
However, despite the modest growth in market incomes after the recession, poverty rates declined very little in the late 1980s. In part, this low rate of decline may have been attributable to the impact of the polarization of earnings. Nevertheless, improved macroeconomic performance would almost certainly reduce poverty among employable Canadians – thereby reducing government transfer costs – and, at the same time, afford opportunities to provide more support to those still in need.

The equality/efficiency trade-off

The economics literature has a long tradition of attempting to show that a society's well-being is enhanced by narrowing income disparities among its members. In oversimplified terms, it is suggested that taxing a very wealthy person and transferring these revenues to a very poor person

Figure 6

**Trends in the growth of labour productivity¹ in the
business sector, Canada, 1970-90**



¹ Measured as the average annual growth rate (over three years) of real GDP per person-hour.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

will allow for a greater satisfaction of human needs. The evidence for this theoretical position, however, has encountered two obstacles. One is that it is difficult, if not impossible, to prove that one person's "utility," or satisfaction, from a given amount of additional income is greater than the loss of "utility" resulting from another person's loss of income. The second is that, even if this could be proven, it does not automatically follow that such a redistribution of income is just. (For instance, again oversimplifying, the wealthy person may have worked very hard for his wealth, and the poor person may have avoided work.) Deciding what is "just" involves making value judgments, and people legitimately differ about such things.

Moreover, reducing disparities through redistribution of income typically involves increases in taxes and/or transfers that can reduce financial incentives to earn income. While recent research undertaken for the Council confirms this hypothesis, it also indicates that the impact (i.e., reductions in earnings) may not be nearly as large as was once believed.

In any event, the possibility of reduced economic output is not the only factor restricting an expansion of Canada's income security system. At the present time, high government deficits and debt levels place a practical restraint on new spending initiatives.

Growing fiscal stress

To a large extent, the expansion of Canada's social-welfare system during the late 1960s and the early 1970s coincided with an era of fiscal "dividends" and government surpluses. The establishment of universal medical-care insurance, the expansion of the UI program, and the enhancement of public income-security programs for those retired from the labour force were undoubtedly facilitated by these surpluses. Decision makers of that era had no reason to suspect that the relatively low levels of unemployment and high rates of real-income growth (at least by today's standards) would not continue.

The low rates of real-income growth and large government deficits of the 1980s and early 1990s have completely altered the fiscal environment. There are those who would argue that it is precisely because of the long-term expansion of social programs – and, to some extent, the failure of governments to raise taxes in equal measure – that these deficits exist. Such a conclusion is too simple, however, and does not take into account all of the other factors that influence government revenues and expenditures.

It is clear that continuing fiscal pressures at all government levels are a major constraint to any reform of the

income security system. The approach of partially or totally freezing benefits and allowing inflation to redress the balance of taxes and transfers is not, in our view, the only one that should be considered. A more fundamental review of the need for, and funding of, redistributive measures is required if significant progress in reducing poverty is to be made. Moreover, given these constraints, Canadians should not overlook the possibility of improving the effectiveness of the existing system of income security benefits through income reallocations.

Conclusion

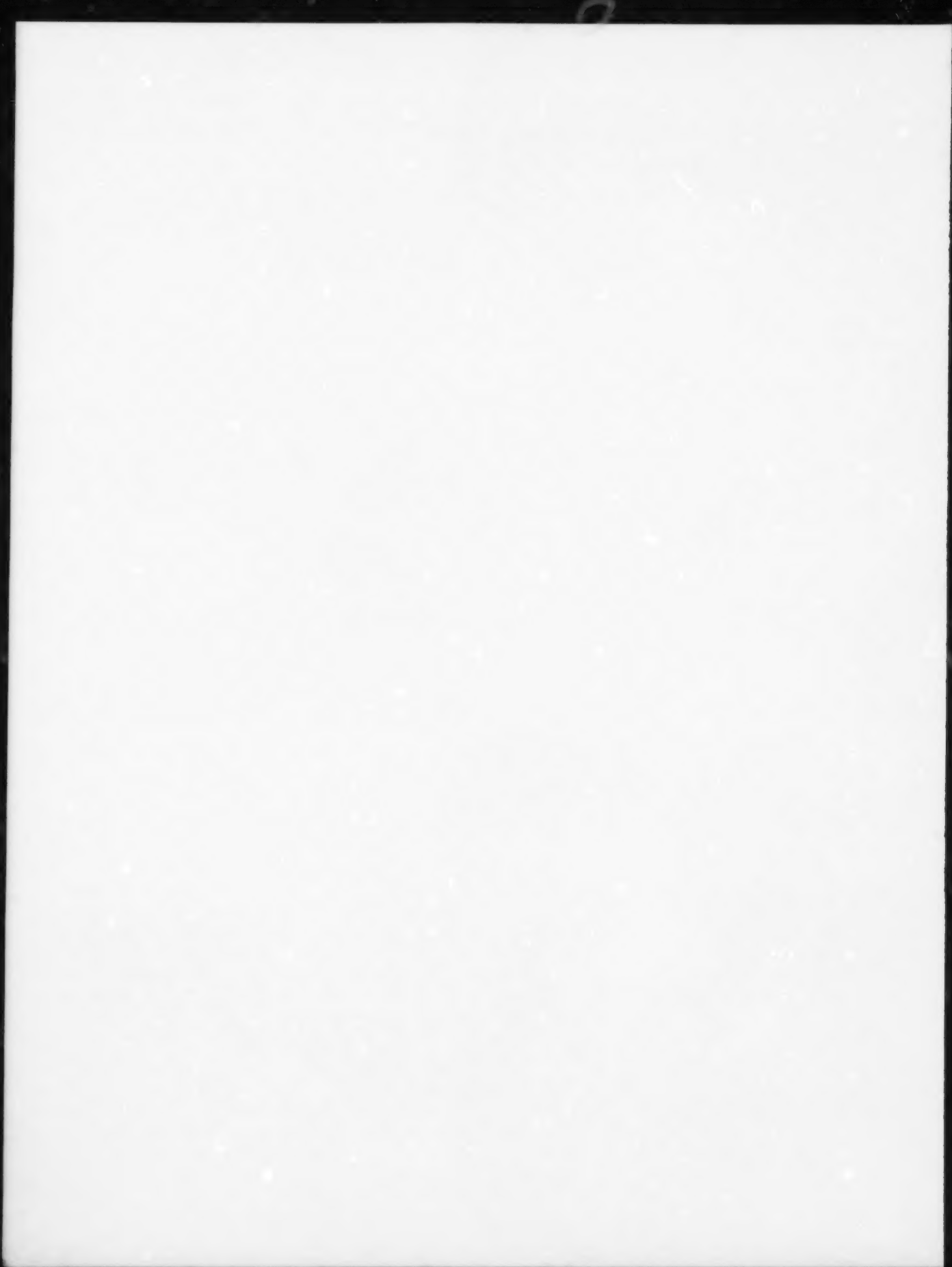
Our analysis indicated that while market-income poverty for the population as a whole declined between 1973 and 1981, by 1989 it was less than 4 percentage points below its 1973 level. At the same time, market incomes were more evenly distributed in Canada than in four of the six other industrialized nations considered.

For the population as a whole, there has been a decrease in the incidence of disposable-income poverty. This resulted mainly from substantial progress in reducing the incidence and depth of poverty among the elderly. Further efforts to minimize the economic hardship of Canadians should therefore be focused on those in the working-age population and their children; the incidence and depth of poverty within this group are now far higher than they are among the elderly.

Strong economic growth should be a major component of any strategy for reducing poverty in Canada. High levels of demand raise employment levels and thus lower poverty levels directly. They also improve the fiscal position of governments and improve the opportunities for expanding the current system of redistributive measures.

The task of reducing poverty during the 1990s and in the next century will not be easy. Growing disparities in the distribution of earnings may well result in pressures just to maintain the current distribution of disposable income (through additional taxes and transfers), let alone make any headway in further reducing poverty.

In the short term, the major constraint on broader redistribution is the fiscal situation of governments. Until public deficits are significantly reduced, additional spending is likely to meet with considerable resistance. However, once the current fiscal situation has been rectified and debt has been stabilized at an acceptable level, it may be judged appropriate to make a larger government commitment in this area.



3 Changing income security needs

The dramatic decrease in poverty among the elderly was the result of political decisions taken some 25 years ago, when it was felt that the extent of hardship among this group was no longer tolerable. That this objective was accomplished without increasing poverty in the rest of the population can be considered a major achievement.

However, the fact that relatively little progress has been made over the last two decades in reducing poverty among working-age Canadians and their children remains a major concern. Changes in the global economy – and in Canadian labour markets in particular – suggest that the prospects of this group may even worsen during the 1990s.

What impact have the changes that have occurred in the economic and social environment had on the income needs of the working-age population? We first provide new evidence on the extent of the volatility of family incomes for all income levels and show that a large proportion of Canadians are in a precarious labour-market situation. We then look at an important element of the economic and social environment that contributes to this volatility – changing family structures. (Labour markets, another contributing factor, will be examined later on.)

Dynamics of family incomes

Studies of the annual distribution of income in Canada suggest that it has undergone relatively little change in recent decades, although there has been a gradual shrinking of the middle-income group and some minor declines in the poor population. At the same time, there is some evidence that rather significant annual movements of family units, both up and down, may in fact have occurred within the income distribution. Until recently, it was impossible to obtain a comprehensive measurement of this dynamic. The Council's research shows, however, that below the relatively placid surface of the income distribution, there is a great deal of turbulence. Large numbers of families experience substantial income movements each year.

The basis for our research is the new "longitudinal administrative database" developed by Statistics Canada, which combines information from income tax returns and from some provincial social-assistance programs over the

period 1982-86. Our analysis was done on a family basis (i.e., we tracked a sample of individuals, to whose income was added the incomes of other family members, if any). These family incomes were then adjusted to take account of family-size and location differences by dividing by the LICO for that particular family size and area-of-residence size. The results are revealing.

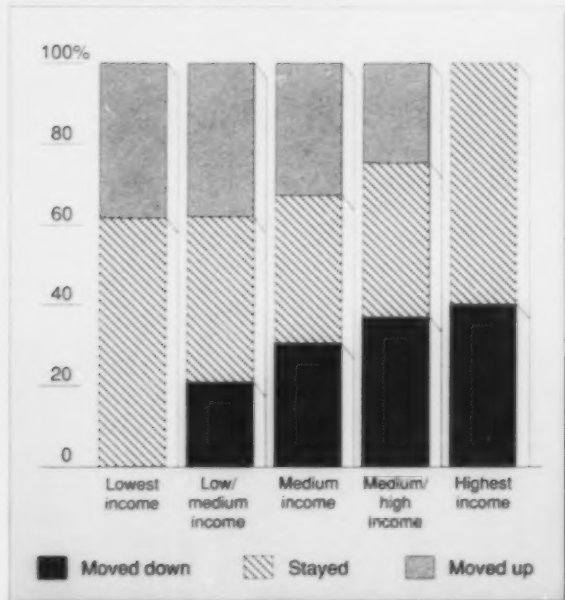
Just over half of the families comprising at least one adult aged 64 or less in 1986 had seen their relative position in the family-income distribution scale change substantially since 1982. In examining each quintile of the distribution, we found that the proportion of adults who moved from one quintile to another after five years (after adjusting for differences in family size) ranged from about 39 per cent to approximately 64 per cent, depending upon the quintile (Figure 7). Moreover, almost all (94 per cent) of these movements involved substantial changes in income. Note that these data do not include those who left a quintile, then returned to it within the five-year period. In fact, we found dramatic movements in family incomes every year throughout this period (Table 3).

What is most relevant here is that this volatility of family incomes extended to those who are the main concern of this study – the families at the bottom end of the income spectrum. Some 39 per cent of those who were in the lowest quintile in 1982 had climbed to a higher quintile by 1986. Conversely, 40 per cent of those who were in the lowest quintile in 1986 had dropped down from the higher quintile they occupied in 1982.

The large fluctuations in family incomes reflect two separate influences. One is the variation in earnings and other income of individual members of the family. The other is the effect of changes in the composition of many family units. To separate these effects, we divided the working-age population into families whose structure changed (through marriage, separation, divorce, the addition of a first child, and so on) between 1982 and 1986, and those whose structure remained the same. The majority of the working-age population (63 per cent) did not change family status between 1982 and 1986. As Figure 8 shows, 47 per cent of these unchanged families moved to a different quintile over the five years.

Figure 7

Income-quintile changes of working-age adults between 1982 and 1986, Canada¹



1 Each bar (or quintile) represents one fifth of working-age adults in 1982, divided according to income level. The divisions within each bar represent the proportion of people who moved from their 1982 quintile to another by 1986, or who stayed within their 1982 quintile. The data are adjusted for family size; only movements greater than 10 per cent of a quintile were included.

SOURCE: Estimates by the Economic Council, based on data from Statistics Canada

It is also clear that family change had a strong impact on income change. Of those who experienced a change in family composition, 32 per cent moved to a higher quintile and 30 per cent moved to a lower quintile between 1982 and 1986. Not surprisingly, the most dramatic income changes were experienced by those who married or divorced (Figure 9).

Distribution of the low-income population

How do these dynamics alter the images derived from the annual distributions of the low-income population? Figure 10 illustrates the distribution of working-age adults in low-income families in 1982 on the basis of their market incomes.

Looking at the 1982 data, we see that just under 5 per cent of working-age adults were "destitute" in that they had

no market income at all that year. Another 6 per cent of this group were "marginally employed" (i.e., had earnings of up to 50 per cent of the LICOs), while about 8 per cent were classified as "working poor." In addition, another 11 per cent of this population was just above the poverty thresholds (i.e., with incomes up to 150 per cent of the LICOs, or just under \$24,000 after taxes and transfers, for a family of four in a large urban area). These we characterize as the "hovering poor."

The perception of the income security needs of Canadians can be enhanced by adding a time dimension to this analysis. We do this by categorizing the population of working-age adults in the longitudinal administrative database on the basis of their highest annual market income in any one year during the period 1982-86. The distribution of the low-income population over time, according to these market-income "strata," is also shown in Figure 10 (in the dark bars).

We see, for example, fewer adults in families that are destitute over several years (i.e., 2 per cent, compared with 5 per cent, on an annual basis), and more families that have at least one member in the labour force. Indeed, about 98 per cent of families had members with some labour-force attachment during that time. Included in the latter group were those who worked year in and year out at low wages or part-time, as well as those who had sporadic episodes of employment – perhaps for a few weeks at a time and, in some years, none at all.

In summary, these data indicate that many people are in precarious labour-market situations; for over 16 per cent of families, for example, the highest market income in any year in the five-year period did not exceed 1.5 times the LICO. There are, no doubt, a number of factors that contribute to this precariousness. One major factor is the transformation of family structures.

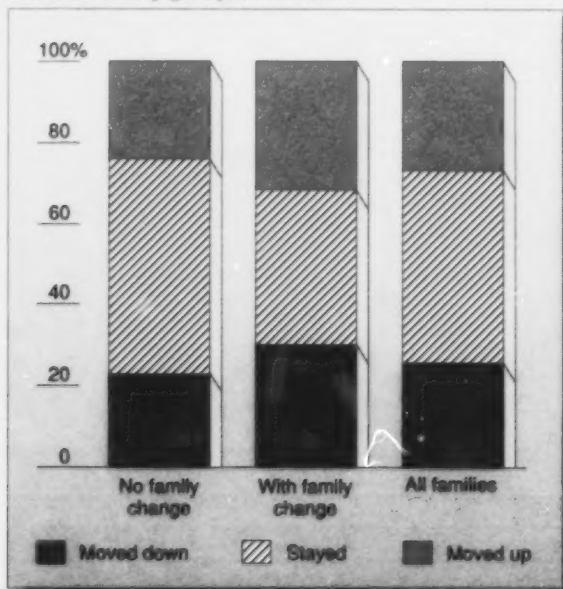
Changing family structures

Questions of income security are typically focused on the earnings capacity and incomes of the family unit, reflecting the fact that the family is generally accepted as the decision-making unit with respect to these economic matters. Significant among the on-going changes in family structure is the emergence of relatively larger numbers of unattached individuals, lone-parent families, two-earner families, and common-law relationships, as well as families with fewer children.

Table 3**Annual income quintile changes for working-age adults, 1982-86**

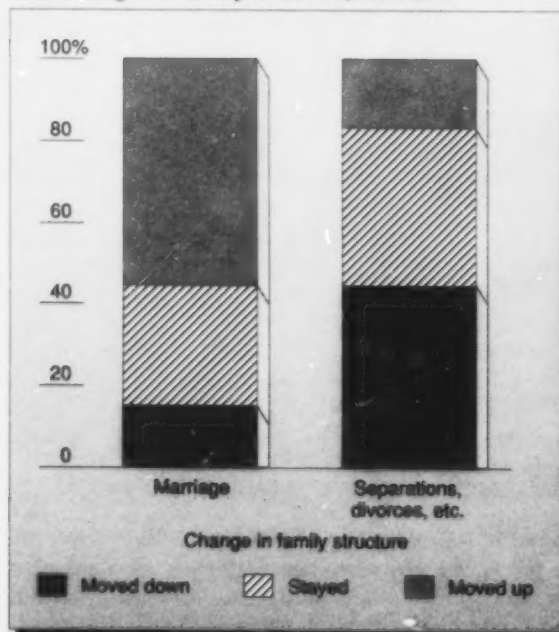
Change		Family income quintile				
		Lowest	Second	Third	Fourth	Highest
(Per cent)						
1982 to 1983	Moved down	—	17.5	23.1	25.5	22.7
	Stayed	75.7	57.7	54.3	58.0	77.3
	Moved up	24.3	24.9	22.6	16.5	—
1983 to 1984	Moved down	—	16.8	22.9	24.1	22.6
	Stayed	76.7	58.5	55.1	58.9	77.4
	Moved up	23.3	24.7	22.0	17.0	—
1984 to 1985	Moved down	—	15.5	21.6	24.5	22.2
	Stayed	77.2	59.2	55.2	58.8	77.8
	Moved up	22.8	25.3	23.2	16.7	—
1985 to 1986	Moved down	—	15.7	21.7	24.4	23.2
	Stayed	76.2	58.4	54.8	58.1	76.8
	Moved up	23.8	25.9	23.4	17.5	—

Source Estimates by the Economic Council, based on data from Statistics Canada.

Figure 8**Income-quintile changes between 1982 and 1986, selected family groups, Canada¹**

¹ The groupings here are based on whether or not there was a change in family structure during the period 1982-86. The data are adjusted for family size.

Source Estimates by the Economic Council, based on data from Statistics Canada.

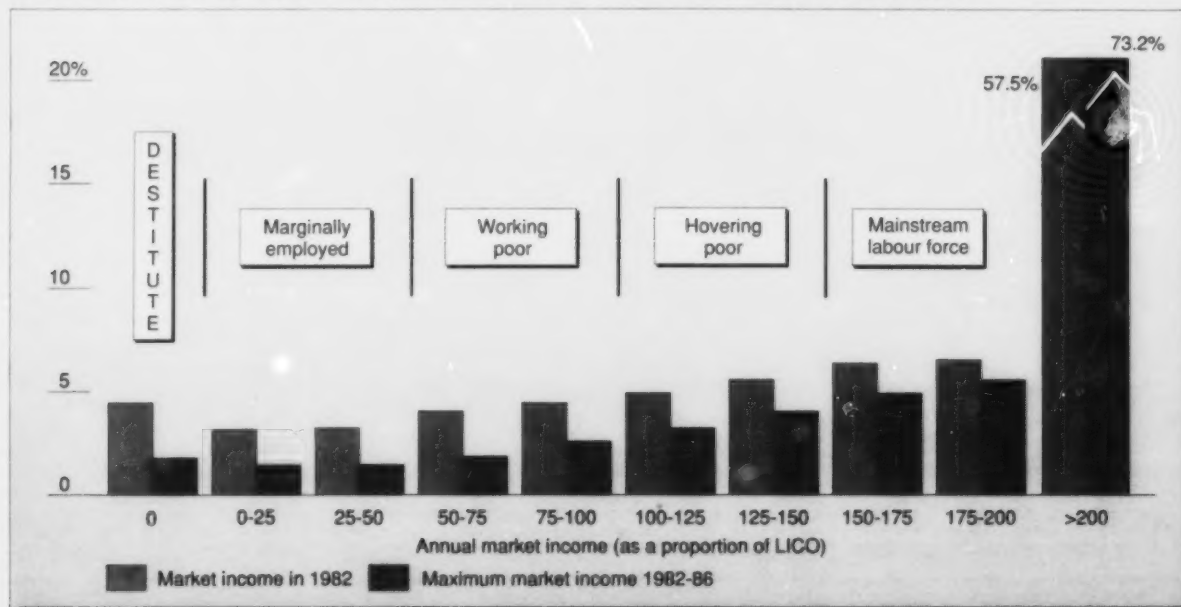
Figure 9**Income-quintile changes associated with 1983 changes in family structure, Canada¹**

¹ The data are adjusted for family size.

Source Estimates by the Economic Council, based on data from Statistics Canada.

Figure 10

Distribution of working-age adults, by annual market income, Canada, 1982 and 1982-86 period



Source: Estimates by the Economic Council, based on data from Statistics Canada.

With the exception of the 1960s, marriage rates have drifted down over the past 40 years; at the same time, divorce rates rose dramatically after changes were made in the divorce legislation in 1968 (Figure 11), resulting in more singles and lone-parent families. Figure 12 illustrates the relative change in the number of lone-parent families (as a proportion of all families with children) in greater detail and over an even longer period of time. It is interesting to note that the proportion of families with only one parent present was 12 per cent some 50 years ago, with approximately two thirds of these being widowed. Over the intervening years, however, this group has diminished in relative terms, only to be replaced during the 1970s and 1980s by a significant increase in the number of lone parents who were separated, divorced, or never married. Between 1961 and 1986, the number of lone-parent families increased by over 50 per cent. The vast majority of lone parents are women – and increasingly, young women.

Among intact families, there has been a significant shift towards two earners over the past two decades. Between 1971 and 1986, for example, the proportion of such families (with or without children) in which the woman participated in the labour force rose from 36 to almost 58 per cent. Despite this dramatic increase in the number of two-earner

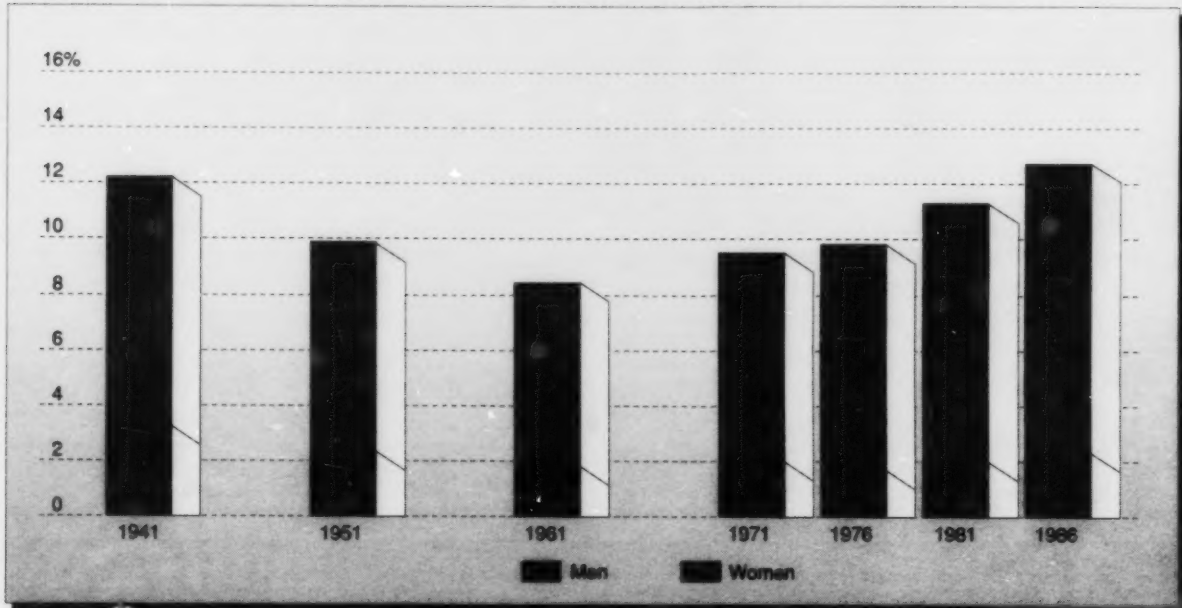
Figure 11

Trends in marriage and divorce, Canada, 1950-86



Source: Based on data from Statistics Canada.

Figure 12

Proportion of families with a lone parent,¹ Canada, selected years, 1941-86¹ Census families with children.

SOURCE Based on data from Statistics Canada.

families, the incidence of poverty among intact families has declined only moderately.

Although the incidence of poverty among families with children has declined, the presence of children continues to elicit the most compassion in almost any debate on the trade-offs between equity and efficiency. The long-term physiological and psychological effects of social disadvantage on children are serious. There is a clear correlation between income and health. Poorer Canadians do not live as long, or as well, as those with higher incomes. And their children do not fare as well in school as do children of wealthier families. Since there is a strong link between levels of education and subsequent economic well-being, children raised in poverty start off their work lives at a significant disadvantage. As pointed out in *Canada's Children*, a disproportionate number of children from low-income families are also involved in "persistent offending."

While substantial advances have been made in raising the average educational attainment of Canadians, we continue to be concerned about the rate at which young people drop out of school. As pointed in the Council's recent Statement, *A Lot to Learn*, 30 per cent of young people do not complete

their secondary schooling. Although the average number of children per family has been declining since the 1960s, there is some evidence that this trend is now levelling off. Clearly, the issue of child poverty is likely to remain at the forefront of the poverty debate.

In summary, the structure of families is substantially different today than in decades past. Family units (including unattached individuals) are now greater in number, smaller in size, less cohesive, and with fewer dependents. As a result, a larger proportion of the population is independent and, in most cases, is seeking a role in the labour market. The trends that we have observed in family structures suggest that the current volatility in the formation and dissolution of families will continue in the foreseeable future. The important association between changing family structures and the volatility of family incomes adds to the impact of these changes on the precariousness of the labour-market situation of many Canadians.

Conclusion

This review of the distribution of the low-income population and of the trends in family structures leads us to a

number of conclusions on the changing income-security needs of working-age Canadians.

Only a small proportion of the population is truly destitute and has virtually no opportunity for achieving some level of self-sufficiency. However, there are many Canadians whose income-earning prospects are precarious. They range from families with only marginal earnings to the working poor and to those hovering at the edge of poverty. While almost all of these families have some labour-force attachment, the majority of them are in a difficult situation because that attachment is tenuous (longer-term unemployment, part-time earnings opportunities, etc.). In relative terms, this group is probably quite a bit larger today than it

was two, three, or even four decades ago, as indicated by increases in:

- the level and duration of unemployment;
- the number of nonstandard jobs; and
- family instability.

The evidence presented here clearly indicates that there is a "continuum" of people in need. At the same time, the fact that there are large numbers of Canadians who, for example, are destitute one year and have earnings close to the poverty threshold the next year, indicates that there is a considerable amount of volatility in the incomes of the poor.

4 Poverty in Canada

The statistics that help to explain the nature and scope of poverty in Canada are well known to researchers who work in this field. They are based on the family income data collected by Statistics Canada over the past several decades. Interyear comparisons of these survey data indicate net changes over time, such as the trends in the incidence of poverty between 1973 and 1989, noted earlier.

These statistics do not by any means, however, provide a complete picture of the situation of those who are poor. On the sole basis of these data, for example, it is difficult to understand what causes lie behind the growth of food banks in Canada. The data do not say much about the extent of movements into and out of poverty, or help to distinguish between the characteristics of those who move and those who stay.

By examining the extent to which Canadians who become poor remain poor, we have been able to gain new insights into the relative severity of poverty. Before presenting the results of our analysis, however, we first explore some of the issues surrounding the measurement of poverty and examine some of the trends in greater detail.

A matter of measurement

In the introduction, we noted that the poor can be defined as those who lack the resources required to enjoy the basic necessities of life and that the determination of who is poor depends largely on value judgments made in defining "resources" and "necessities of life." There is no broad consensus on exactly how resources should be measured and what items should be included among the necessities of life.

With respect to the necessities of life, a number of approaches have been advocated, ranging from the specification and cost of a "basket of goods" to measures that reflect a standard of living relative to the average citizen (i.e., the person earning the median income). In the latter approach, the poverty threshold is defined as some portion – say, 50 per cent of median income. In either case, and in methodologies that essentially combine these two basic approaches, a related issue is that of the adjustment that must be made to poverty thresholds over time as conditions change (e.g., prices, social values, etc.).

Current income is typically used as the measure of resources; however, several questions arise when it comes to measuring such income. For example, should it simply be cash income or should it also include various in-kind flows (e.g., benefits derived from equity in a residence)? Whose income should be pooled and over what period? Finally, should one be measuring market income, total income, or disposable income (after taxes)?

Our choice of Statistics Canada's LICOs to measure poverty reflects something of a methodological middle ground (see box on p. 20). In our research, we used the 1978 after-tax LICOs, which are based on family spending on food, clothing, and shelter that year, adjusted for price changes since then by the consumer price index and calculated in relation to the disposable incomes of families. The 1991 value of these LICOs, in terms of disposable income, ranges from \$8,328 for a single individual in a rural area to \$33,413 for a family of seven in a large urban area; the LICO for a family of four in a large urban area is \$23,756. It should be noted that most of Statistics Canada's publications use a before-tax version of the LICO and measure low incomes on the basis of total income. However, we chose to focus our attention on disposable income, given the impact of both taxes and transfers on the distribution of income and, therefore, on the portion of income available for consumption. At the same time, data limitations prevented us from including the value of various in-kind components in our analysis.

Poverty trends

We have already noted the dramatic decline in the incidence of disposable-income poverty among the elderly over the period 1973-89. Other groups, however, did not fare as well, as shown in Figure 13. In general, poverty rates declined over this period for all groups. For single individuals under 25, however, the incidence of disposable-income poverty fell during the 1970s, increased dramatically in the 1980s, and in 1989 was just marginally lower than in 1973.

Of greater importance are the substantial differences in the incidence of poverty between these groups, where the rates for youth and lone-parent families (and, to a lesser extent, for all other singles) continued to be considerably higher than the norm. Moreover, the poverty rates for single

Poverty measures

The figure beside illustrates the overall trends in disposable-income poverty, using a variety of measures. With one exception, these poverty thresholds all show the same trend, although their rates vary. The exception is the poverty measures advocated by the Canadian Council on Social Development, which incorporate a purely relative approach to measuring poverty and are considerably higher than the LICOs. The CCSD's measures indicate very little change in the incidence of poverty over the period for which data are available, largely because most of the reduction in poverty indicated by the LICOs has been among the elderly, whose incomes tend to be concentrated between the LICOs and the CCSD poverty lines.

Statistics Canada's low-income cut-off (LICO)

Statistics Canada's LICO is based on the proposition that the proportion of a family's income spent on food, clothing, and shelter declines as that income rises. It is set at the level, based on a 1978 survey of family expenditure, where families on average spend 58.5 per cent of their before-tax income on those three items. It is defined for three urban-area sizes of residence and for rural areas, as well as for family sizes of one to seven persons. This measure is adjusted each year to take account of changes in the consumer price index.

Price-adjusted, disposable-income LICO

This measure is calculated by Statistics Canada in the same way as the above measure, except that it is on a disposable-income basis (and then adjusted year to year to reflect changes in the CPI).

Income-adjusted, disposable-income LICO

This is the same as the price-adjusted, disposable-income LICO, except that it is adjusted year to year to reflect changes in median income.

U.S. poverty line

This official U.S. measure is based on surveys conducted during the 1960s, which indicated that the average U.S. household spent about one third of its income on food. The poverty threshold was set at three times the minimum income required for a nonfarm family to purchase what the U.S. Department of Agriculture refers to as an "economy diet." The thresholds are adjusted to reflect changes in family size, number of children, and age of head. They are updated each year by the U.S. consumer price index. In our analysis, these numbers were converted to Canadian dollars using the OECD index of purchasing-power parities.

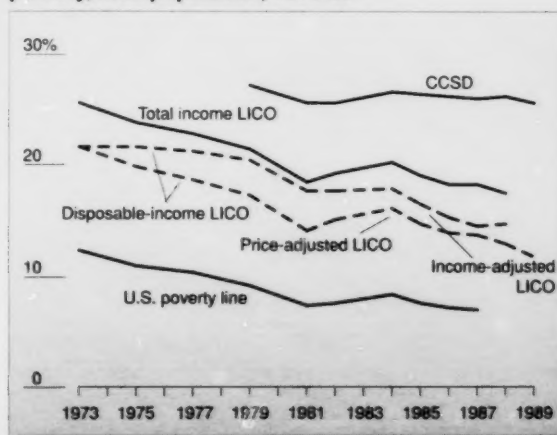
Canadian Council on Social Development (CCSD) poverty lines

The CCSD's poverty lines are set at 50 per cent of the average family income. They are adjusted for family size. In 1988, these poverty lines were set at the following levels for a family of two (e.g., a single parent) and a family of four:

Poverty line values, 1988

Family size	Pre-tax LICO	Price-adjusted	Income-adjusted	CCSD	United States
(In Canadian dollars)					
Two	15,264	12,511	13,661	18,832	9,948
Four	23,528	20,351	22,222	26,504	15,115

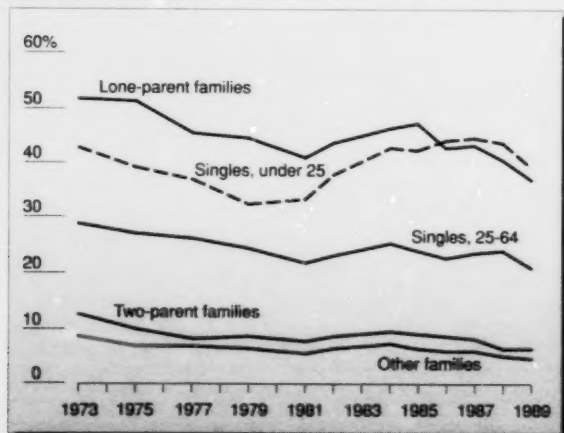
Selected indicators of the annual incidence of poverty, total population, 1973-89



SOURCE: Estimates by the Economic Council, based on data from Statistics Canada and the Canadian Council for Social Development.

Figure 13

Annual incidence of poverty,¹ selected family groups, Canada, 1973-89



1 Based on disposable-income LICOs.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

women, whether unattached or lone parents, were somewhat higher than for their male counterparts. Despite these differences, married couples, with or without children, because of their numbers still made up 44 per cent of the poor population.

Table 4 indicates the trends in the depth of poverty for the working-age population, as well as the differences in depth among the various groupings of the population. Generally speaking, reductions in the incidence of poverty over

the last two decades have been accompanied by reductions in its depth. Yet it bears noting that the depth of poverty remains high. On average, poor families have disposable incomes that are fully 34 per cent below the low-income cut-offs. As for differences between the selected groups, the high rates of poverty among singles were compounded by somewhat more severe depth measures, indicating especially greater economic hardship for these Canadians, particularly young single people.

Table 5 shows that in 1989, the incidence of poverty in Canada was highest in the Prairie provinces and lowest in Ontario, with the other regions being in the middle at around 14 per cent. Differences were much smaller, however, in relation to the average depth of poverty for those who were poor. Quebec and the Atlantic region had the lowest ratios, while the Prairie provinces had the highest.

Education levels also have a significant influence on the risk of becoming poor. Canadians with lower levels of basic education are substantially more prone to be poorer in their adult years than those who go to school longer. In 1988, for example, of all families with a working-age head with less than nine years of education (excluding single young people, many of whom were still in school), more than 20 per cent were poor. Moreover, other evidence from the Council's research suggests that the educational achievement of children in families affected by poverty and other unfavourable socio-economic conditions (e.g., absent parents) is substantially below average. To the extent that there is a fundamental poverty cycle, the key to breaking it may well lie in ensuring that all Canadians receive a high level of basic education.

Table 4

Annual depth of poverty for selected family groups, Canada, 1973-89 (selected years)

	Singles		One-parent families	Two-parent families	Other	All working-age units
	Youth	25-60				
	(Per cent)					
1973	59.8	54.9	43.8	29.6	34.4	43.6
1977	55.3	43.5	40.6	33.2	37.1	42.2
1981	47.9	41.9	36.6	30.7	32.6	38.2
1984	53.6	38.6	34.8	30.8	31.8	37.5
1986	44.5	39.8	32.1	28.1	30.4	35.6
1987	44.9	37.5	32.0	27.7	30.5	35.0
1988	44.5	36.9	31.7	26.2	31.7	34.9
1989	47.6	34.7	29.9	27.9	32.3	34.4

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

Table 5**Poverty trends for the working-age population, by region, 1973-89 (selected years)**

	Atlantic region	Quebec	Ontario	Prairie region	British Columbia
	(Per cent)				
Incidence of poverty					
1973	23.7	21.1	14.5	20.5	13.2
1977	17.9	16.9	13.6	14.9	14.3
1981	15.7	15.8	10.9	10.9	12.3
1984	17.2	20.0	12.9	15.9	16.3
1986	15.5	18.0	11.6	14.3	15.3
1988	13.8	17.4	10.5	14.6	13.7
1989	13.4	14.6	9.4	14.7	12.4
Depth of poverty					
1973	41.7	40.3	46.8	45.3	47.3
1977	40.1	40.4	42.9	46.2	42.9
1981	33.4	35.6	39.1	44.8	40.8
1984	35.5	35.7	39.3	40.4	36.6
1986	35.8	33.0	36.6	38.9	37.1
1988	32.4	32.3	36.8	38.0	36.0
1989	31.1	32.4	33.3	38.5	36.0

Source: Estimates by the Economic Council, based on data from Statistics Canada.

The dynamic dimension of poverty

While these poverty trends reflect the net change in the number and characteristics of the poor from year to year, they fail to capture the nature and scope of the flows into and out of poverty each year. In line with our findings on the dynamics of family incomes at all levels of the income distribution, we found that the working-age poor cannot be stereotyped as an unchanging segment of society.

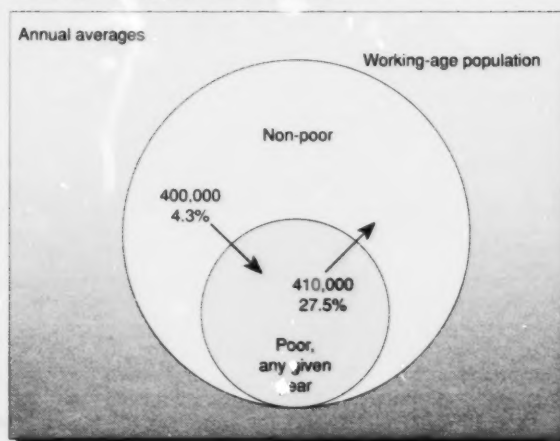
Between 1982 and 1986, more than 27 per cent of Canadians who were poor in any one year – about 410,000 adults, on average – were not poor the following year (Figure 14). At the same time, roughly the same number of persons (about 400,000, on average) moved into poverty each year. These overall flows were more or less the same over the period 1982-86, despite the recovery that took place after the 1981 recession.

Among those who escaped poverty in a given year during this period, 21 per cent returned to it the following year (Figure 15). Of those remaining out of poverty for two or more years, a declining proportion returned to it in each subsequent year.

Similarly, among those who became poor in a given year, 49 per cent escaped the following year; compare this with the average annual rate at which the poor escape poverty –

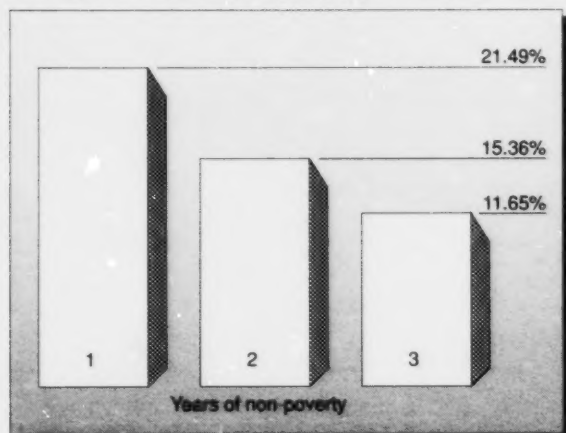
27 per cent. Of those remaining poor in any year, a declining proportion escaped in each subsequent year (Figure 16).

At first glance, these trends seem to lend support to the hypothesis that the ability to escape poverty is adversely influenced by its duration. There is, for example, the popular

Figure 14**Poverty flows, Canada, 1982-86**

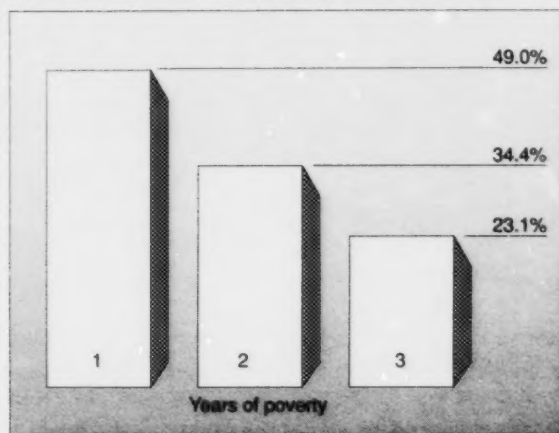
Source: Estimates by the Economic Council, based on data from Statistics Canada.

Figure 15

Poverty re-entry rates,¹ working-age adults, Canada¹ Based on disposable-income LICOs.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

Figure 16

Poverty exit rates,¹ working-age adults, Canada¹ Based on disposable-income LICOs.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

conception that people who have been poor for an extended period of time are likely to become too dependent on benefits received through government transfer programs (e.g., social assistance) and that escaping from poverty eventually becomes next to impossible.

While our research findings certainly do not contradict this hypothesis, they are by no means sufficient to confirm it. In this regard, some people living below the poverty threshold and unable to work may well have characteristics that, while not captured by the set of longitudinal data that we used, may well have an impact on our results. For example, we know from other sources that among people who have lived in poverty over a long period of time, many are simply unable to become self-reliant because they have a severe physical or mental disability. Others may choose not to work because they are single parents with young children at home who require nurturing. In both of these cases, it is not appropriate to argue that they remain poor simply because they have lost the habits and attributes of self-reliance.

Other evidence sheds additional light on the question. For example, research done by the Council in the last few years has shown that those who become unemployed (and this generally excludes the severely disabled) and do not find a job during the first few months of unemployment have a low probability of doing so in the following months. In addition, analysis presented later on in this report indicates

that there is a tendency for some workers to become dependent on UI benefits; this, in turn, may result in long spells under the poverty threshold, although all workers who become dependent on such benefits may not be poor. Thus it is reasonable to suspect that at least some poor people tend to become dependent on one social-security program or another and lose the ability or motivation to become self-reliant. However, the data available to us do not tell us how significant such dependency is.

In short, whether the probability of remaining unemployed or poor is a function of the length of time already spent in that condition and/or of a number of other factors is a question that cannot be answered without additional data and analysis. From the data used here (and from U.S. studies), we can only surmise that the rate at which people join the ranks of the long-term poor is fairly low.

So far, we have characterized the poor population as consisting of a group that is persistently poor and another that is poor for shorter periods of time. But the data suggest that this characterization of Canada's poor population is too simple. Some of those who escape poverty do not return, at least in the short term. At the same time, there are others who experience repeated spells of poverty. From 1982 to 1986, an average of 15 per cent of those who were poor in any given year had two, and even three, spells of poverty during the five-year period. Among those who escaped from poverty in 1983, for example, almost 40 per

cent re-experienced poverty within three years. In summary, there is a volatile continuum of people in need, ranging from the totally destitute to those who only occasionally touch poverty.

The cumulative effect of these observed movements of Canadians into and out of poverty can be summarized by the fact that almost twice as many adults experienced at least one year of poverty (in one or several spells) over the five-year period studied (25.1 per cent) as were poor in any one year (average 13.8 per cent). Moreover, these results suggest that this risk of poverty is even greater over longer periods of time – perhaps as many as one in three Canadians runs this risk over their working careers.

The above analysis was based on our selected poverty lines. There are, of course, many other yardsticks by which poverty can be measured. As already noted, almost all of these measurements show the same trend. One view of the poor might be that they are those who qualify for social assistance in the community in which they reside.

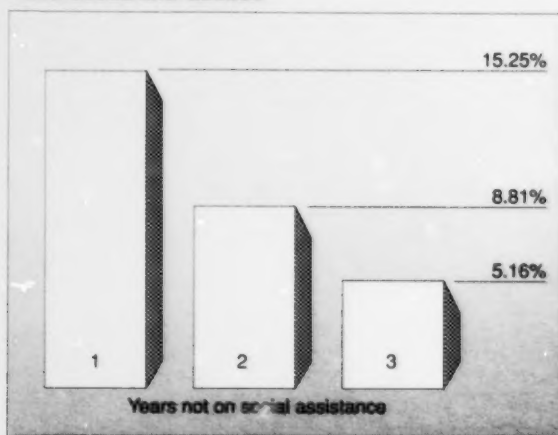
Using the longitudinal administrative database, we were able to investigate the volatility and duration of poverty for those receiving social assistance in Quebec and Nova Scotia. (Such data were not available for the other provinces.) Because there is considerable variation between provinces in social-assistance benefit levels and in the operation of the programs, caution should be exercised in extending the results of this analysis to other provinces.

Compared with the poverty dynamic measures noted above, the corresponding rates of entry into and exit from social assistance were somewhat lower, although the patterns over time tended to be similar. For example, the average annual exit rate from social assistance in the two provinces over this period was 12.6 per cent, compared with 27.5 per cent for those who were poor in any given year. But among those who had just moved off social assistance, a much higher-than-average proportion re-entered the following year (Figure 17). Among those who remained off social assistance for two or more years, a declining proportion re-entered in each subsequent year. This pattern is quite similar to the relationship between the length of time out of poverty and re-entry rates (see Figure 15).

For those who had just moved on to social assistance, however, exit rates increased in the second year and then decreased for those still on social assistance in the third year (Figure 18). This pattern, although somewhat different from that observed for those who just became poor (see Figure 17), tends to reinforce the image of a less volatile dynamic for the "poorest of the poor."

Figure 17

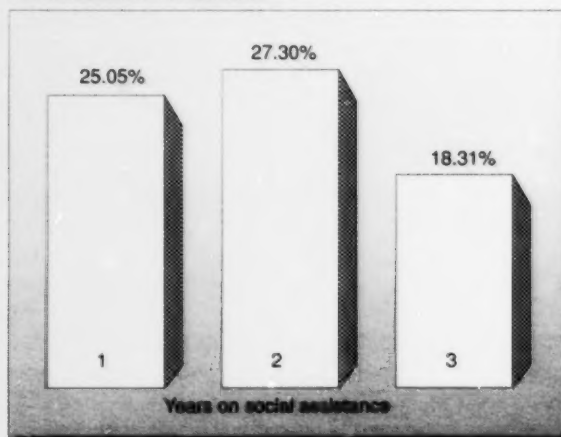
Social assistance re-entry rates, working-age adults, Nova Scotia and Quebec



SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

Figure 18

Social assistance exit rates, working-age adults, Nova Scotia and Quebec



SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

Duration of poverty

The duration of poverty is an important measure of its relative severity: the social and economic difficulties of people who are poor year after year differ significantly from those experiencing one short spell of poverty. Duration also

provides a useful summary measure of the rather complex dynamics of poverty that we have just outlined. There are a number of ways of capturing this aspect of poverty.

One approach is to group those who had only one spell of poverty at any time between 1982 and 1986 according to the number of years that they were poor (Figure 19). We found that at least 8.3 per cent of all working-age Canadians were poor for only one year during this period and that 5.9 per cent were poor all five years. While many of these would have been poor for more than five years, the average duration of poverty observed was about three years. There is every reason to expect that all of these proportions would be somewhat higher if we had been able to track Canadians over longer periods of time.

Another way of measuring duration is to look at those who were poor in any given year during the period 1982-86 and then distribute them according to the length of their poverty spells (e.g., those who were poor only one year, from two to four years, and all five years, and repeaters); these are shown for each year between 1982 and 1986 in Figure 20. We see that, in any given year, between 42 and 45 per cent of the poor population was made up of people who were poor in all five years; the remaining 55 to 58 per cent or so was made up of those who were poor for varying periods, including "repeaters" (i.e., those people who had more than one poverty spell during the period).

The relative severity of poverty, as measured by its duration, varies dramatically from one family group to the next. As indicated in Table 6, the likelihood of longer-term or persistent poverty is highest among lone-parent families and older single individuals; roughly one quarter of people in both groups were poor in all five years over the period 1982-86, compared with 5.9 per cent of the total working-age adult population. Conversely, shorter-term poverty was more prevalent among younger singles and lone-parent families. For example, 12.6 per cent of single individuals under the age of 25 were poor for only one year, compared with 8.3 per cent of all working-age adults.

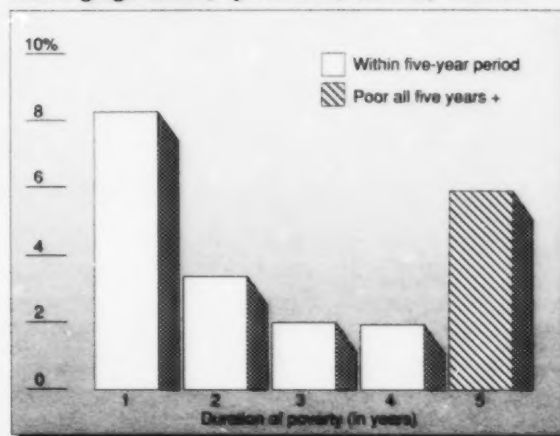
With the exception of lone parents, most of whom are women, these dynamics and the resultant duration statistics did not differ much between men and women. Moreover, given their large numbers, married couples (with or without children) still made up 31 per cent of the long-term poor.

Poverty risk factors

What are the major risk factors associated with these movements into and out of poverty? Given that earnings

Figure 19

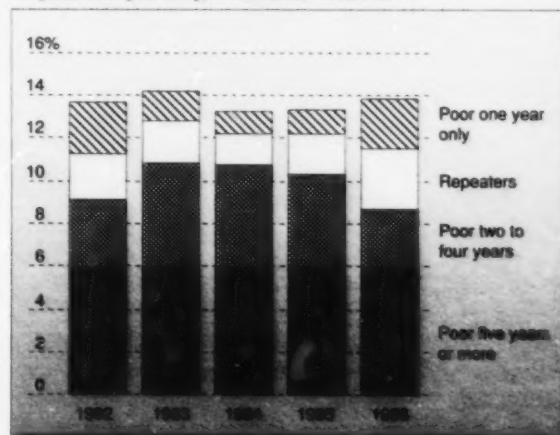
Longer-term incidence of poverty¹ among working-age adults, by duration, Canada, 1982-86



¹ Based on disposable-income LICOs. Repeaters are excluded.
SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

Figure 20

Composition of working-age adult poor, by number of years in poverty,¹ Canada, 1982-86



¹ Based on disposable-income LICOs.
SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

are, by far, the major source of income of Canadians and that poverty is assessed on the basis of family income, it is not surprising to find that major events related to work activity (e.g., job loss) and family structure (e.g., family

Table 6**Incidence of poverty over five years for selected family groups in Canada, 1982-86**

	Number of years in poverty						All families
	1	Repeaters	2	3	4	5	
	(Per cent)						
Family type in 1982:							
Youth	12.6	7.4	6.1	4.7	3.4	9.1	43.3
Singles 25-44	4.0	2.6	2.2	1.8	1.1	3.6	15.3
Singles 45-60	5.2	3.2	3.0	2.5	3.5	25.9	43.3
Lone-parent	8.9	8.2	5.6	4.6	6.4	24.2	57.9
Two parent	8.1	3.2	3.0	1.6	1.4	3.2	20.4
Childless couples	6.9	2.1	2.3	1.1	0.9	1.8	14.7
All working-age adults	8.3	3.7	3.3	2.0	1.9	5.9	25.1

Source: Estimates by the Economic Council, based on data from Statistics Canada.

formation) have a significant impact on the likelihood of becoming poor or of escaping from poverty. Here we examine the changes in the probability of entering or leaving poverty that are associated with these major events.

To determine what effect a change in the number of earners or in marital status has on the probability of moving into or out of poverty, we first calculated that probability for selected groups of the working-age population (e.g., families with one or two earners, married couples with children, etc.). These "benchmark" rates of transition into and out of poverty appear in Table 7, which shows, for example, that a one-earner family that was not poor in any given year between 1982 and 1985 had a 4.6-per-cent probability of becoming poor the following year. Similarly, a one-earner family that was poor in any one of those years had a 49.0-per-cent probability of escaping from poverty by the following year.

We consider, first, the left side of Figure 21, labelled "into poverty." As already noted, the benchmark transition rate into poverty for a one-earner family is 4.6 per cent of all nonpoor families in that group. (The benchmark rates have been marked on the figure in order to compare the rates of entry for those families who experience a change in the number of earners with those who do not.) If the family loses its earner, the probability of entry into poverty jumps to 26.9 per cent. A much smaller increase in that probability occurs when a family with two earners loses one of them.

The right-hand side of Figure 21 deals with movements "out of poverty." Here, we can see that the probability of

exit increases sharply (above the benchmark) when either a first or second earner is added, with the impact of a second earner being the stronger.

The impact of a change in family structure is even more dramatic (Figure 22). Between 1982 and 1986, the probability of escaping from poverty upon marriage or the start of a common-law relationship was much higher than the benchmark rate. Conversely, for those who were among the nonpoor, the probability of entering poverty upon family

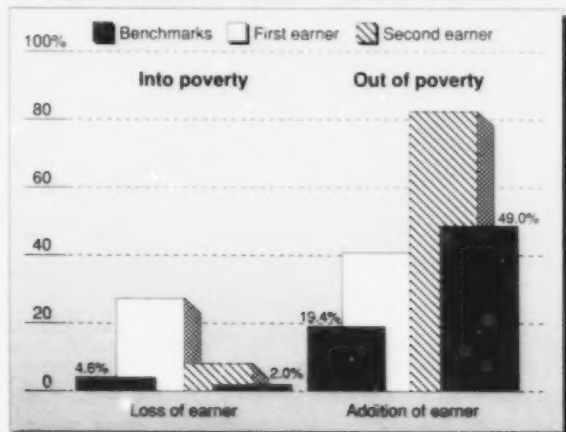
Table 7**Basic poverty risk rates, Canada**

	Into poverty	Out of poverty
	(Per cent)	
No-earner families	12.3	19.4
One-earner families	4.6	49.0
Two-earner families	2.0	53.4
Single persons		
- with children	14.1	18.3
- without children	7.5	25.3
Married couples		
- with children	3.1	34.8
- without children	3.3	31.9
Overall rate	4.3	27.4

Source: Estimates by the Economic Council, based on data from Statistics Canada.

Figure 21

Transition rate into or out of poverty associated with change in number of earners,¹ Canada, 1982-86



1 The change in the number of earners excludes those associated with family structure change only.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

break-up was many times the benchmark rate. In fact, for those with children the proportion who became poor was about 12 times the benchmark rate (37.6 per cent versus 3.1 per cent).

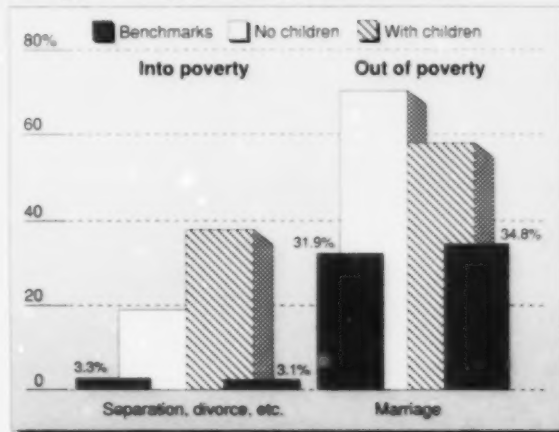
Conclusion

The poor population is neither stable nor homogeneous. Unquestionably, a considerable number of Canadians do suffer persistent poverty. A large proportion of these long-term poor are totally disabled, but lone-parent families and older workers (some of whom are partly disabled) are also overrepresented in this group.

However, volatility is as much a characteristic of poverty as is its persistence. The annual rate of turnover into and out of poverty is about 27 per cent. A substantial proportion of those who escape poverty will re-enter it within

Figure 22

Transition rate into or out of poverty¹ associated with change in family structure, Canada, 1982-86



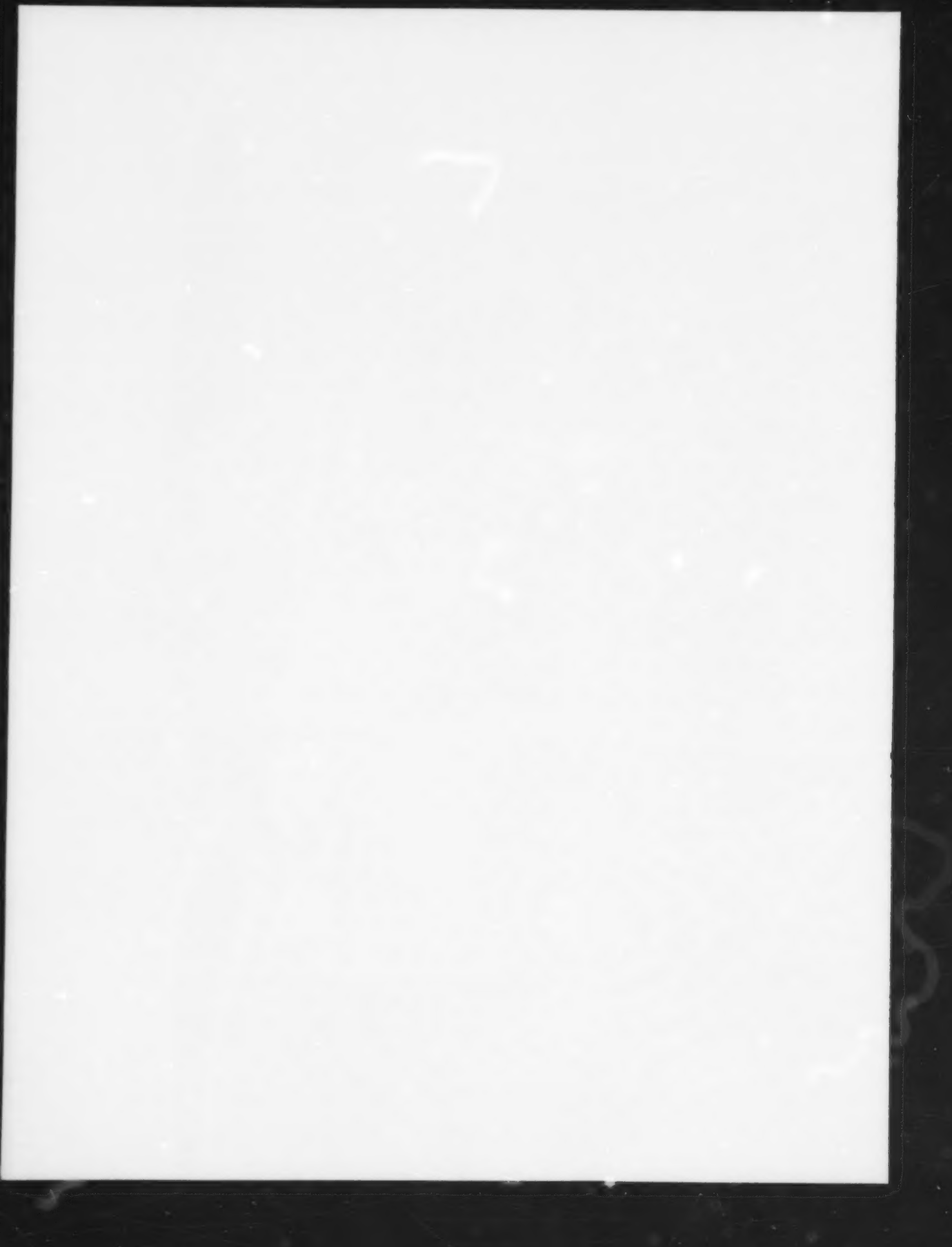
1 Based on disposable-income LICOs.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

a relatively short period. Overall, close to one in three Canadians are likely to experience poverty at least once during their working careers.

The risk of entering poverty increases substantially with divorce or with a reduction in the number of earners in a family (especially through job loss). Similarly, marriage or an increase in the number of earners are major events that greatly enhance the probability of escaping from poverty. These findings highlight the critical relationship between the risk of poverty and some of life's major decisions.

This complex poverty dynamic is part of the larger phenomenon of volatility at all levels of income, reflecting ongoing changes in business conditions, labour markets, and family structures. The implication is that the income security system must be examined – and reformed, if necessary – to ensure that it responds in the most effective and efficient way to the changing face of poverty.



5 The role of labour markets

Wages and salaries represent, by far, the major source of income for Canadian families. As a consequence, any structural change in labour markets, by altering the relative remuneration associated with different occupations, industries, or regions, can have a significant impact on the economic well-being of families. In this regard, the dramatic transformations that have occurred in labour markets over recent decades appear to be creating income insecurity for many Canadians. The unemployment insurance system has mitigated many of the adverse impacts of these and other sources of job loss by protecting the incomes of millions of workers. At the same time, some aspects of the UI program may not be providing the proper incentives for some of the unemployed to prepare themselves for stable employment.

The Council and others have attempted to understand better what lies behind the various trends in labour markets. For example, about 10 per cent of jobs are destroyed each year, and about the same number are created: What is the precise impact of these job-destruction and -creation flows on unemployment levels and on labour-force participation rates? There is some evidence that the higher incidence of unemployment in Canada than in the United States may be attributable, at least in part, to the higher job-creation and -destruction rates in this country. In any event, the average duration of unemployment is becoming longer, and after adjusting for cyclical factors, a growing proportion of Canadians are now experiencing unemployment spells of one year or more (these are the "long-term unemployed"). Those aged 45 and over are particularly vulnerable, because it is difficult for them to find employment.

There may be many reasons for the growth in the adverse conditions experienced by many workers. One of these has been the changing nature of the job market in Canada.

A changing job market

Participation in the labour force has increased substantially in recent decades, particularly among women and youth. So, too, has the employment base. In fact, Canada's job-creation rate over the past two decades has been the highest among industrialized countries.

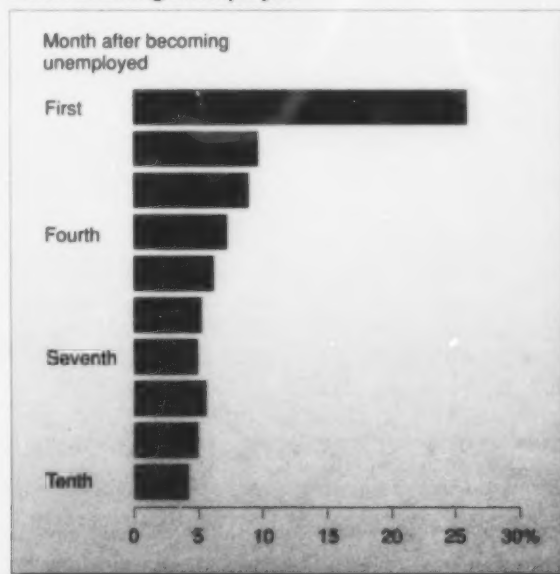
Rise in unemployment

Despite this record, job creation has not kept up with the growth in the Canadian labour force. As a result, unemployment rates have risen from an average rate of about 4 per cent in the 1950s to over 9 per cent in the 1980s. The first two and a half years of the 1990s suggest that the average for this decade could be even higher than that for the last.

The incidence of long-term joblessness has also increased significantly since the 1970s. Research done at the Council shows that those who have not returned to work within the first few months of unemployment have a very low probability of doing so later on (Figure 23). Over half of those who become unemployed at any given point in time

Figure 23

Probability of returning to work after becoming unemployed



SOURCE: Based on data from Miles Corak, "The duration of unemployment and the dynamics of labour sector adjustment: Parametric evidence from the Canadian Annual Work Patterns Survey, 1978-80, 1982-85," working paper no. 3.

will have found work by the end of the fifth month; seven months later, only another 15 per cent of the original group will also have a new job.

Nonstandard employment

An important and disturbing feature of the changing job market is that a growing proportion of the new employment opportunities are in nonstandard jobs (i.e., work arrangements that differ from the traditional model of full-year, full-time employment). As noted in *Good Jobs, Bad Jobs*, about 44 per cent of all new jobs created between 1981 and 1989 were short-term or part-time jobs; this type of employment represented about 28 per cent of all jobs in 1989.

Nonstandard employment typically – though not always – offers low wages, few benefits, little security, and limited prospects for career advancement. What is of particular interest here is the fact that the difference between government financial assistance provided to people in need and the income earned from less-than-full-time jobs may not be large enough to encourage some people to work. The lack of incentive becomes even greater for single women with young children, when the cost of child care is taken into account. Indeed, there is the risk that any increase in income-support levels may even encourage some low-wage earners to withdraw from the labour force. With the expansion of nonstandard jobs and low-paying, full-time jobs, the proportion of the labour force earning incomes that are below, or around, the poverty line, is growing.

Mismatches

Research done at the Council in recent years has found that much of the upward trend in unemployment in the 1970s and 1980s has been “structural” in nature – that is, it has consisted of mismatches between the requirements of jobs and the skills and other characteristics of workers. These mismatches have arisen as a result of a variety of major shifts in the economy over the past two decades, including those brought about by commodity shocks, by the transformation of the industrial structure, and by new production technologies. Furthermore, as the Council has already shown, the skill content of jobs has been rising. As a result, workers without a strong educational or training foundation are finding it increasingly more difficult to meet the requirements of employers – a situation with national, as well as personal, implications.

As Canada's industrial structure adjusts to meet growing global competition and as technology changes, the

number of such mismatches is likely to grow in the future. As pointed out in *A Lot to Learn*, a greater effort must be made to upgrade the skills of the Canadian labour force.

In short, there are worrisome trends towards low-wage, nonstandard jobs and higher unemployment, leading to reduced labour-market security for many workers and growing pressure on the income security system. In any redesign of that system, the importance of these trends must be recognized. At the same time, it will be necessary to increase the efficiency of the system in helping Canadians to become self-sufficient and less dependent on social assistance and unemployment insurance.

Effects of unemployment insurance

The unemployment insurance program is a crucial part of Canada's income security system. Its original purpose was to provide income support for those temporarily unemployed. (Workers with permanent jobs who were not expected to experience unemployment and seasonal workers were excluded.) Over the years, the system was expanded, so that by 1970 it covered 80 per cent of all workers; the following year, coverage was extended to 96 per cent, eligibility requirements were lowered, and benefit rates were improved. The 1971 Unemployment Insurance Act also introduced a new benefit structure, under which benefits became payable in phases, based on a combination of regional and national unemployment rates (“regionally extended benefits”). Since then, the legislation has been amended several times, either to make entrance requirements more stringent or to reduce benefit levels in an attempt to lower the cost of the program.

The most recent changes came into effect in 1990, when the regionally extended benefits were eliminated and new eligibility requirements were introduced. The number of weeks of work required to establish eligibility for benefits and the maximum benefit period (up to 50 weeks) both depend on a region's unemployment rate. Benefits were reduced from 60 to 50 per cent of insurable earnings for those who quit their employment without “just cause.” The changes also included provisions for an increase – to \$800 million annually (from \$392 million in 1989) – of UI funds to be used for developmental purposes, such as training programs, relocation assistance, and provisions enabling unemployment insurance recipients to continue to receive benefits while starting a new business or becoming self-employed. On the recommendation of the Canadian Labour Force Development Board, these funds were raised to \$1.8 billion in 1992, with \$1.5 billion being allocated to the training component (including income support for trainees).

The Canadian unemployment-insurance system is often compared with that of the United States; and in general, it is much more generous. In comparison with the countries of western Europe, some aspects of the Canadian system are more generous, while others are less so. Almost all western European countries have longer benefit-entitlement periods than does Canada, but benefit levels relative to average earnings are somewhat higher in Canada. While workers who quit voluntarily are denied benefits in the United States and in some European countries, rules in most of the latter are similar to those in Canada in this area.

The impact of changes to Canada's UI system on the duration and rate of unemployment has been investigated by a number of researchers. The general conclusion is that the liberalization of benefits in 1971 led to an increase in unemployment. (Estimates of this impact vary from 0.5 to 1.3 percentage points.) It has also been found that the 1979 amendments, which reduced benefits and tightened up eligibility requirements, had an opposite, though smaller, effect.

One criticism of the UI system is that it may have led some recipients to become too dependent on benefits. The changes to the system in 1971 may have strengthened this effect, and the resulting increase in dependency may have contributed to yet higher unemployment. Other things being equal, this dependency on unemployment insurance would be evidenced by extensive repeat usage of unemployment insurance, a lengthening of jobless spells, and a reduction in the time between spells as the number of spells increases.

In analysing the question of dependency, we used the "longitudinal labour force database" maintained by Statistics Canada. This contains the actual data used in the administration of the UI system and represents a one-in-ten sample of all individuals who filed an unemployment insurance claim between 1972 and 1989.

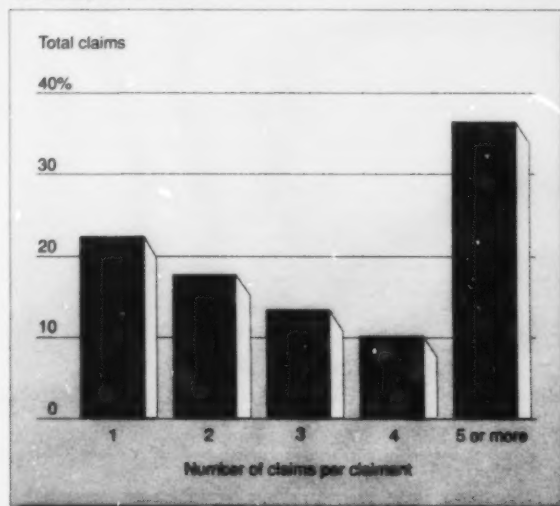
Participation in the unemployment insurance program is characterized by a high degree of repeat use. Over 80 per cent of claimants in any given year between 1972 and 1989 put in at least one other claim during the period, with as many as 40 to 50 per cent recording five or more claims. The young, particularly those aged less than 20 years, have a much higher probability of being repeat users than older individuals.

To analyse the repeat use of unemployment insurance, we followed a group of claimants who had at least one claim in 1972 and were between the ages of 20 and 39 that year. (Older age groups were not selected because they would have reached or neared retirement age by the end of the period considered.) Over the 17-year period, 27 per cent of

the group made five to 10 claims, while almost 10 per cent made more than 10 claims (Figure 24). The incidence of high numbers of claims was highest in the Atlantic region, where almost as many had more than 10 claims as had five to 10 claims in any other region (Figure 25). In all regions, the proportion of claimants with five to 10 claims was over 20 per cent.

Figure 24

Frequency of unemployment insurance use among claimants aged between 20 and 39 in 1972, Canada, 1972-89



SOURCE Based on data from Statistics Canada.

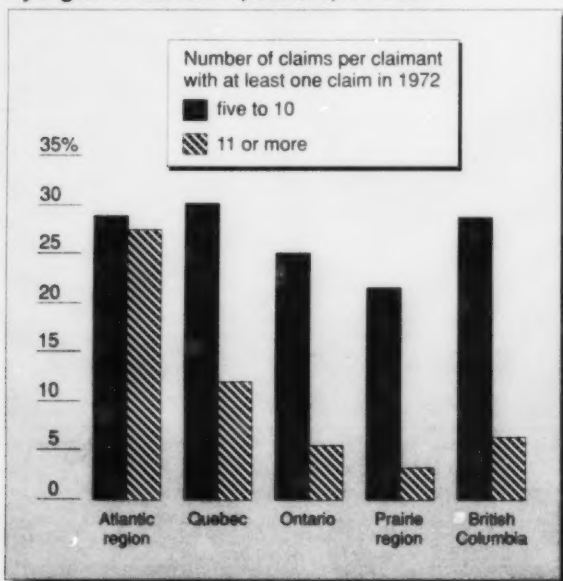
As the number of UI claims made by an individual increases, the time between them decreases (Figure 26). There is, of course, the possibility that changing economic conditions, or changes to the UI program itself, could have influenced these results, shortening the time between claims. However, econometric analysis, which took these factors into account, shows similar results.

As for the average duration of benefits, for that same group of claimants (aged 20 to 39 in 1972), as the number of claims increased, the average duration of paid benefits lengthened from 19 weeks for the first spell to 24 weeks for the fifth (Figure 27).

As with the shortening time between claims, while other factors may affect the duration of claims, econometric evidence supports the hypothesis that claimants tend, all other

Figure 25

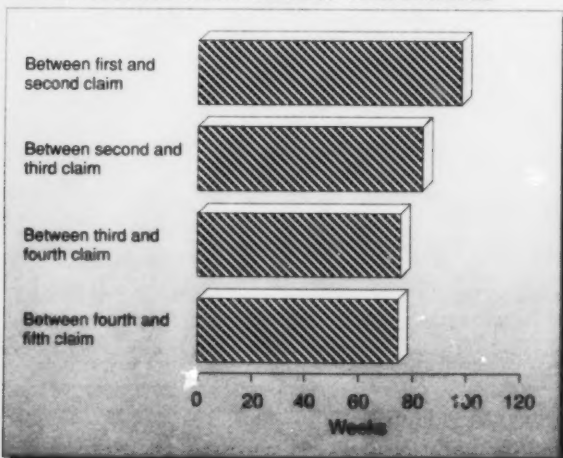
Repeat use of unemployment insurance among claimants aged between 20 and 29 in 1972, by region of first claim, Canada, 1972-89



SOURCE Based on data from Statistics Canada.

Figure 26

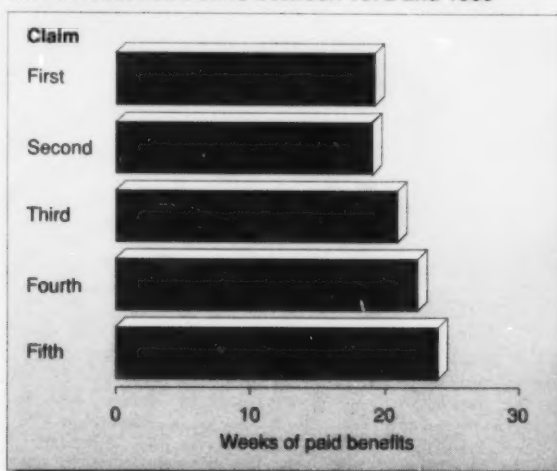
Average number of weeks between claims for UI claimants aged between 20 and 39 in 1972, with at least five claims between 1972 and 1989



SOURCE Based on data from Statistics Canada.

Figure 27

Duration of period on UI benefits for claimants aged between 20 and 39 in 1972, with at least five claims between 1972 and 1989



SOURCE Based on data from Statistics Canada.

things being equal, to spend more time collecting UI benefits with each claim they make.

The length of the benefit period can also have an impact on the probability of leaving unemployment. Work done in Canada shows that the probability of leaving unemployment declines throughout the benefit period and then increases somewhat near the end of the entitlement period as the unemployed workers lower their wage expectations. Work done in the United States and in several other countries, where maximum benefit-entitlement periods differ from those in Canada, shows a similar pattern, indicating that it is the approach of the end of the entitlement period that increases the probability of leaving unemployment. These findings imply that a reduction in the maximum benefit period, while it would create hardship for some people, might also result in others finding jobs sooner than under the current system. Based on the available data, the average duration of unemployment spells might decrease by somewhat less than one day for each week that the benefit period is decreased. However, some of those who would find a job earlier might also have to accept lower wages.

In summary, many of those who have found it necessary to use unemployment insurance, use it often. The high repeat use, as we interpret the data, is often associated with lack of needed skills, poor education, or an inability or unwillingness to relocate. But it is also indicative of the

development of a dependency syndrome. In short, many people who find themselves in this situation are not likely to break out of their dependency as long as current conditions (which have been essentially the same for the past 20 years) remain the same.

Of course, some repeat use is attributable to seasonal factors. The critical question here is to what extent these seasonal factors would alter our conclusions. We have examined this question and found that less than 30 per cent of repeat use is the result of seasonal factors. Thus even if seasonal workers are excluded from the calculations, the number of repeat unemployment insurance claims remains far too high (see Appendix A).

Conclusion

There have been substantial changes in Canadian labour markets over the past two decades, with rising participation rates for women and high labour-force growth rates. While there has been strong job creation, this has not kept

pace with the expansion of the labour force. There have also been significant structural changes in Canadian industry and an increase in the proportion of nonstandard jobs. At the same time, the skill requirements of jobs are changing – a trend that is likely to continue in the foreseeable future.

While the unemployment insurance program has protected the incomes of millions of Canadians who suffered job losses, it is characterized by a high level of repeat usage, and there is strong evidence that in its present form it encourages a kind of dependence. As the number of spells on unemployment insurance grows, so too does the probability of experiencing subsequent spells within a given period. From this we conclude that the unemployment insurance system has not provided the incentives for unemployed workers to acquire the requisite skills or education in order to integrate into a stable pattern of employment.

While we were unable to obtain information that would enable us to remove the influence of seasonality from our data on the use of unemployment insurance, we estimate that if seasonal workers were removed from the data, there would still be a large amount of repeat use.



6 The effects of income security programs

As we have seen, the working-age poor defy simple categorization. In fact, there is a continuum of people in need, ranging from a relatively small number of families who are truly destitute for long periods to those who suffer only an occasional short-term spell of poverty. A large proportion of low-income families experience dramatic changes in their incomes from year to year. How well do the major government transfer and employment-related service programs serve the needs of this diverse population?

Before answering this question, we review the evolution of major income-security programs and examine the use of two of the most important among them – social assistance and unemployment insurance. We then consider their effectiveness in targeting benefits at those in need, as well as the adequacy of benefit levels and the extent to which they provide – or fail to provide – incentives to help those in need to become self-reliant. Finally, we review the employment-related services that are available.

The scope of our analysis is restricted to the major programs aimed at the working-age population. For that reason, programs serving the elderly are excluded. Similarly, while child-related supplements provide some assistance to poor families with children, we do not deal with them here, although they are included in our statistical analysis of effective tax rates.

Our assessment of how well the major income-security programs affecting the working-age population serve their needs is guided by four key criteria:

- effectiveness – to what extent does a program reduce poverty?
- efficiency – what proportion of a program's benefits goes to the poor?
- adequacy – how close do benefits come to providing an overall income that is consistent with an (admittedly arbitrary) poverty threshold? and
- incentives for self-reliance – to what degree do unemployment insurance and social assistance provide incentives or disincentives to work? How extensive and effective are the services that are provided to help those in need to become self-reliant?

As with our exploration of the dynamics of poverty, Statistics Canada's longitudinal administrative database provides a new information source for gaining insights on the extent to which Canadians are served by the major income-security programs. As a result, we now have a better understanding of how well the safety net succeeds in meeting the needs of those experiencing earnings difficulties. At the same time, simulation models were employed to measure various impacts of these programs on typical Canadian families.

Income security milestones in Canada

In assessing the evolution of the major income-security programs affecting the working-age population, a number of milestones are of particular importance.

Although various federal and provincial programs had been in place for years, the historic reports of Lord William Beveridge in Great Britain (1942) and Leonard Marsh in Canada (1943) provided, for the first time, a framework for the development of a comprehensive system of income security programs in Canada. In earlier years, work had taken place in Canada on the development of a National Employment Service to help match people with jobs; as well, a national unemployment-insurance program was fully implemented in 1942. Family allowances were introduced in 1944, and a system of child benefits evolved over the ensuing years for all families with young dependents.

By the 1950s, income support programs for the blind, the disabled, single mothers, and the long-term unemployed were more or less a reality in every province. In 1962, the report of the Committee of Inquiry into the Unemployment Insurance Act (the Gill Committee) outlined three components of an income security system for the unemployed: a period of income replacement (i.e., unemployment insurance); a national plan of "extended benefits" to be paid out of general revenues after that initial period; and an income assistance plan, administered by local authorities. The subsequent development of programs, however, followed a somewhat different course.

In 1966, all of the federal/provincial cost-sharing arrangements with respect to the various provincial social-assistance programs (including those for unemployment assistance) were brought under the umbrella of the Canada Assistance Plan (CAP), and provisions were made for the cost-sharing of a range of "welfare services." This was followed by a major overhaul of the unemployment insurance (UI) program in 1971, which included, among other changes, the establishment of a set of extended benefit periods that came into effect when the national or local unemployment rates reached certain levels, all paid out of the basic UI fund.

Throughout the 1970s and 1980s, various adjustments were made both to the UI program and to the set of CAP-financed social-assistance programs in the provinces, largely in response to the growing number of people who experienced longer periods of unemployment or found themselves in marginal earnings situations. Greater emphasis was put on expanding support services, such as job training, counselling services, and child-care support. In addition, the tax rate attached to some social-assistance programs (i.e., the rate at which benefits are reduced, or "taxed-back," as earnings increase) were lowered somewhat in order to eliminate most disincentives to work, if not enhance incentives to earn income.

A system under stress

In essence, social assistance is a set of provincial income-security programs of last resort for the entire population, providing government transfers and services to anyone requiring support in a particular month. As a result, these programs are expected to address the needs of a wide variety of Canadians and to be sensitive to a complex range of differing situations. However, social-assistance program structures still reflect, to a large extent, the concept of a program for those not expected to work. The perpetuation of this program design is heavily influenced by the conditions of the Canada Assistance Plan, which require stringent asset tests and high tax-back rates on earnings. In this regard, federal financing under the plan requires that the average tax-back rate per family be 80 per cent or more (i.e., on average, benefits must be reduced by 80 per cent of earned income). At the same time, these programs vary considerably from province to province, particularly with respect to benefit levels (for which there are no conditions under CAP).

Social-assistance case loads have gradually increased over the past 20 years, so that roughly one in 12 working-age Canadians now rely on social assistance benefits at any

point in time. The largest contributing factor to this growth has been the inexorable increase in the number of long-term unemployed. Thus the programs are under considerable strain, even at the best of times, to meet a much wider range of needs than existed when they were first established. During recessions, they may be severely overloaded.

Similarly, the basic principles of the original unemployment-insurance program have been "stretched" in order to provide benefits over longer periods of time to those in regions with higher unemployment rates, without any concomitant increase in contributions. The result has been a marked change in the work-behaviour patterns of employees in those regions, accompanied by a higher rate of dependence on unemployment insurance, especially for those in seasonal industries. As noted in Chapter 5, recent Council research has shown that there is a very high repeat use of unemployment insurance, particularly among young men. This tends to suggest that the unemployment insurance program is providing the wrong incentives for many workers.

The income security system for working-age Canadians has undergone considerable change since the 1940s. That change has provided many low-income Canadians with needed assistance. However, the system is currently under strain. Thus it is legitimate to ask to what extent at least part of that strain results from the disincentives to work and hence to self-reliance that are part of the very design of the system.

Social assistance and unemployment insurance usage by the poor

In traditional evaluations of income security programs, analysts rely on the criteria of effectiveness, efficiency, adequacy of benefits, and incentives to determine the impact of these programs. The new database available to us provides insights that do not fit neatly into any one of those four criteria but, instead, overlay all four. Before proceeding to the traditional criteria, we set the stage by examining the extent of the actual use of these programs by the poor.

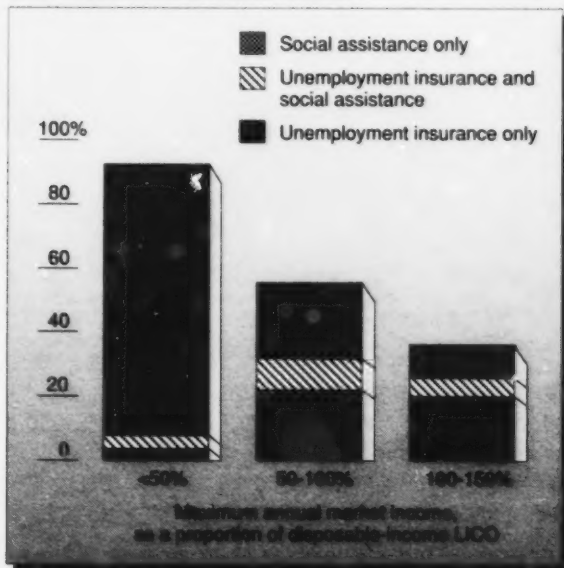
While the extent to which the working-age poor in any one year are supported by government transfer programs has been reasonably well-known to those working in the field, there is little information about their impact on individual Canadians over the longer term. We have been able to explore these "dependencies" on both unemployment insurance and social assistance for residents of those provinces for which data on both programs are available (Nova Scotia and Quebec) over the period 1982-86.

Of people in those two provinces who were poor in all five years, almost all of the poorest of the poor – that is, the destitute, the disabled, the marginally employed, and others who faced many obstacles to employment and whose maximum annual market income in the best of the five years did not exceed half of the LICO – received social assistance benefits (see first bar of Figure 28), while a very small proportion qualified for unemployment insurance.

In the case of the “working poor” (the second bar of Figure 28), an average of about 22 per cent benefited from unemployment insurance each year; some 24 per cent received social assistance, and 10 per cent were supported by both programs in each year. As for the remaining 44 per cent of this group, despite their persistent poverty they did not receive payments from either of these programs at any time during these five years. Some of these people were self-reliant and eventually managed to escape poverty on their own. Yet it is important to recognize that there are substantial numbers of working poor people who, of course, do not receive UI benefits and do not qualify for social assistance because their incomes are above the maximum allowed in their province.

Figure 28

Income support during years of poverty for those who were poor for at least five years, Nova Scotia and Quebec, 1982-86



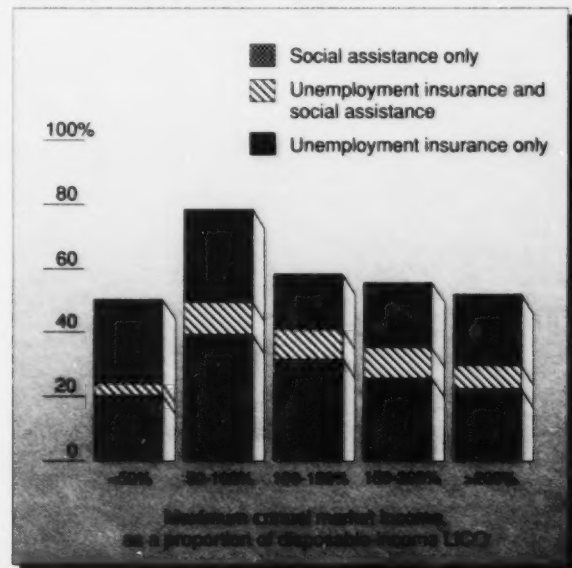
SOURCE Based on data from Statistics Canada.

For those with shorter durations of poverty, the pattern changes to one of greater reliance on unemployment insurance and less on social assistance. Nevertheless, there were still some Canadians with higher levels of private income in at least one year between 1982 and 1986 who, during another year of the same period were poor and received social assistance but no unemployment insurance (Figures 29 and 30). In other words, it is not unusual for *both* unemployment insurance and social assistance in any one year to serve people who, in terms of earnings capacity and duration of poverty, are quite similar.

How long do various family types spend on social assistance? While the overall average annual rate of dependence on social assistance was 12.5 per cent for Quebec and Nova Scotia together during the period 1982-86, a total of 17.3 per cent of working-age adults in those two provinces relied on social assistance at one time or another over the five-year period. Nearly half of them (8.2 per cent of the total) – including, no doubt, a large number of disabled persons and many single mothers – were on social assistance for all five years (Figure 31). In terms of those on social assistance in any given year (Figure 32), long-term recipients made up about 65 per cent of the total.

Figure 29

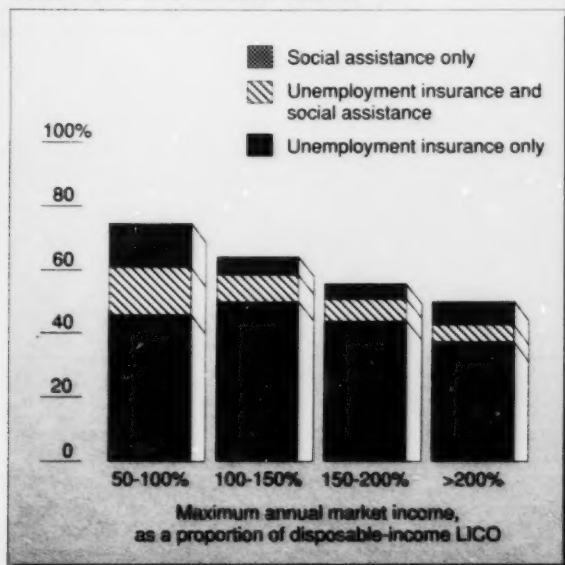
Income support during years of poverty for those who were poor for at least three years, Nova Scotia and Quebec, 1982-86



SOURCE Based on data from Statistics Canada.

Figure 30

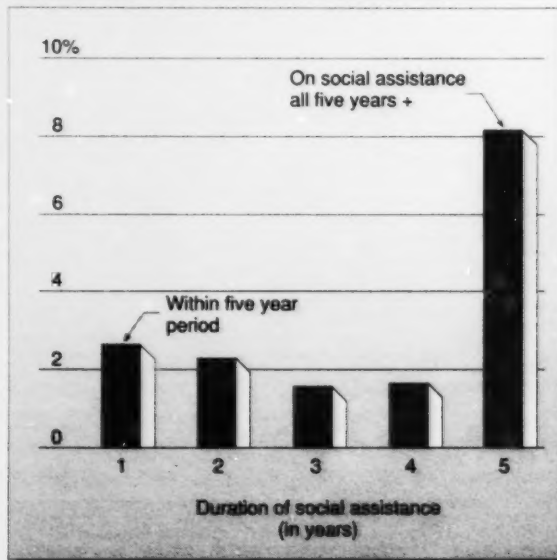
Income support during year of poverty for those who were poor for at least one year, Nova Scotia and Quebec, 1982-86



SOURCE Based on data from Statistics Canada.

Figure 31

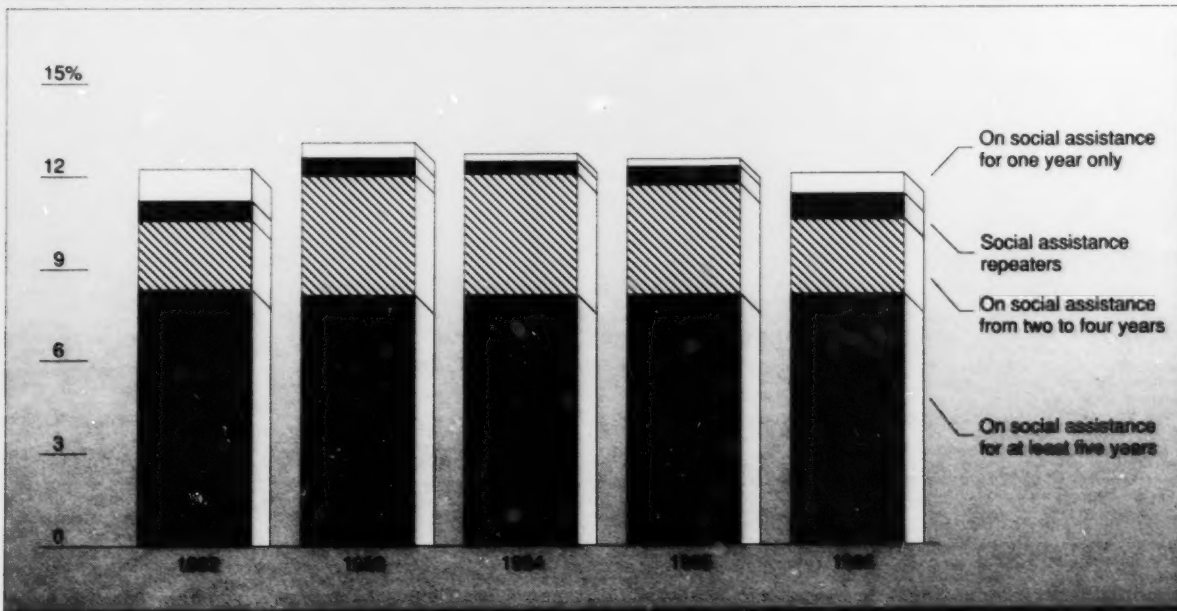
Five-year incidence of social assistance among non-elderly adults (excluding repeaters), by duration, Nova Scotia and Quebec, 1982-86



SOURCE Based on data from Statistics Canada.

Figure 32

Incidence of social assistance, by number of years on social assistance, Nova Scotia and Quebec, 1982-86



SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

Lone parents and other single people were more persistently poor than other groups, and their long-term reliance on social assistance was greater (Table 8). Almost half of the lone parents in the two provinces received social assistance benefits at one time or another over the five years, and more than 30 per cent were on social assistance throughout the period. While only about 3 per cent of married couples with or without children were on social assistance in all five years, because they represent a sizeable group in the population as a whole they still made up a substantial proportion of those persistently on social assistance.

Impact of the programs

Effectiveness

The effectiveness of a program measures the extent to which it reduces the annual incidence and depth of poverty, at least in a static sense – that is, assuming no behavioural change on the part of its recipients. Table 9 shows the overall effectiveness (and efficiency) of both the unemployment insurance and social assistance programs across Canada in 1989, based on the assumption that recipients would not have altered their labour market behaviour if either program had not existed. Despite its primary objective as a program of last resort for the needy, social assistance has only a small impact (2.1 percentage points) on reducing the incidence of poverty, largely because benefit levels in most cases are below the LICOs used as our measure of poverty. However, social assistance does have a considerable impact on the depth of poverty, reducing it

by 49.5 per cent. Thus, depending on whether reducing the incidence or depth of poverty is considered more important, social assistance can be judged as moderately or quite effective.

Unemployment insurance is about as effective as social assistance in reducing the incidence of poverty, given the greater total benefits paid out, but it is much less so in reducing the depth of poverty. However, the objectives of these two programs are quite different. Unemployment insurance is intended to provide income for those who are temporarily unemployed, most of whom have some employment income within the year. Social assistance, on the other hand, is intended as the final safety net for those with almost no other income and who have exhausted their UI benefits as well as most of their liquid assets.

Efficiency

Efficiency measures the degree to which programs are targeted at the poor (typically through income testing). Table 9 shows that social assistance is quite efficient, in that over 60 per cent of benefits flow to poor families or to families who would be poor in the absence of the program. Only 20 per cent of unemployment insurance benefits flow to the poor.

Adequacy of benefits

As a fundamental measure of the adequacy of the income security system that has evolved over the past 40 years, we

Table 8

Incidence of social assistance over five years for selected family groups, Quebec and Nova Scotia, 1982-86

	Number of years on social assistance						All families
	1	Repeaters	2	3	4	5	
	(Per cent)						
Family type in 1982:							
Youth	5.1	2.4	5.3	3.3	2.9	11.8	30.8
Singles 25-44	2.8	1.9	2.7	2.0	2.5	24.8	36.7
Singles 45-60	1.3	0.6	1.4	1.3	2.8	35.8	43.2
Lone-parent	2.9	1.7	3.2	3.0	3.7	30.9	45.4
Two parent	1.8	0.5	1.3	0.8	0.8	2.2	7.3
Childless couples	1.1	0.3	0.8	0.5	0.6	4.0	7.3
All working-age adults	2.7	1.0	2.3	1.6	1.6	8.2	17.3

SOURCE: Based on data from Statistics Canada.

Table 9**Impact of unemployment insurance and social assistance on poverty,¹ Canada, 1989**

	Unemployment insurance	Social assistance
	(Per cent)	
Incidence of poverty		
Without program	12.5	12.3
With program	10.2	10.2
	(Percentage points)	
Impact of program	-2.3	-2.1
	(Millions of dollars)	
Depth of poverty		
Without program	5,085	7,588
With program	3,832	3,832
	(Per cent)	
Impact of program	-24.6	-49.5
Proportion of expenditures directed to:		
Poor families	4.3	37.4
Moving families out of poverty	15.8	26.0
Nonpoor families	80.0	36.6

¹ These impacts were evaluated on the assumption that if one program was eliminated, no additional benefits would be paid by the other program.

Source: Estimates by the Economic Council of Canada, based on data from Statistics Canada.

examine, for four types of family structures that depend solely on transfers, the relationship between their disposable incomes and the low-income cut-offs that we have chosen. For this analysis, disposable income consists of all of the transfers (and tax credits) for which a family is eligible. Income taxes are, in all cases, zero. As can be seen from Figure 33, there is a wide variation in the levels of income support across different family types. In addition, there are large differences between provinces (Table 10). Within any given province, benefits for single-parent families tend to be relatively higher (as a proportion of the LICO) than for other families. In Manitoba, however, a married couple with two children is relatively better off than are the other family types, while in New Brunswick, the benefits for a disabled person are higher than for other family types. Without exception, benefits for the single employable person are lower than for any other type of family unit.

Not only is there a large variation in these selected examples, there is also a large variation in benefits within a province, depending upon a variety of factors. The major

transfer program in this analysis is the basic social assistance, which provides benefits for the food, clothing, shelter, utilities, personal, and household needs of the family. For any given family type and size, the most important of these factors is the shelter component, reflecting variations in housing market conditions within each province. Our examples have assumed that the family lives in separate rented accommodation in the largest municipal area in the province. However, in no case are the income security benefits above the chosen poverty threshold in the largest urban area in the province.

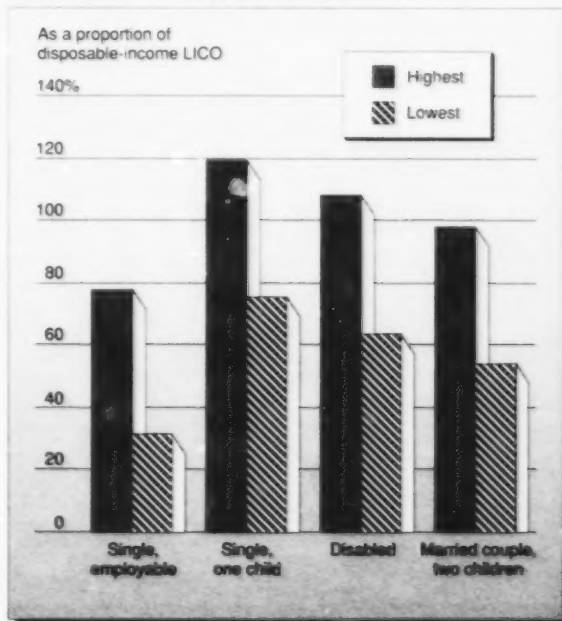
Thus not only do benefit levels of social assistance vary dramatically across the country and across family types, they also are generally well below our chosen measures of poverty.

Incentives/disincentives to self-reliance

While the ability of income security programs to serve those in need depends, to a large extent, on the adequacy

Figure 33

Highest and lowest provincial level of disposable income¹ from income security programs, by selected family type, Canada, 1990



¹ Assuming no earned income or unemployment insurance benefits.

Source: Based on data from the National Council of Welfare.

Table 10

Estimated maximum income available under income security programs, by province and by type of household, 1990, and relationship to the Statistics Canada low-income cut-off¹

	Basic social assistance	Basic social assistance as a proportion of LICO	Disposable income from income security programs	Disposable income as a proportion of LICO
	(Dollars)	(Per cent)	(Dollars)	(Per cent)
Newfoundland				
Single employable	3,884	40.9	3,984	42.0
Disabled person	6,288	66.3	7,888	83.2
Single parent, one child	9,928	81.2	11,251	92.0
Couple, two children	11,480	57.5	13,722	68.8
Prince Edward Island				
Single employable	7,245	76.4	7,345	77.4
Disabled person	7,305	77.0	8,485	89.4
Single parent, one child	10,113	82.7	11,316	92.5
Couple, two children	14,769	74.0	17,186	86.1
Nova Scotia				
Single employable	5,882	62.0	5,982	63.1
Disabled person	8,064	85.0	8,164	86.1
Single parent, one child	9,792	80.1	11,115	90.9
Couple, two children	11,950	59.9	14,232	71.3
New Brunswick				
Single employable	2,904	30.6	3,004	31.7
Disabled person	5,804	61.2	7,704	81.2
Single parent, one child	7,868	64.3	9,191	75.2
Couple, two children	8,500	42.6	10,742	53.8
Quebec				
Single employable	6,624	69.8	6,724	70.9
Disabled person	6,872	72.5	6,972	73.5
Single parent, one child	9,096	74.4	11,091	90.7
Couple, two children	13,188	66.1	16,425	82.3
Ontario				
Single employable	6,804	71.7	7,295	76.9
Disabled person	9,816	103.5	10,250	108.1
Single parent, one child	12,780	104.5	14,576	119.2
Couple, two children	16,548	82.9	19,545	97.9
Manitoba				
Single employable	5,678	59.9	6,492	68.4
Disabled person	5,947	62.7	6,872	72.5
Single parent, one child	8,200	67.1	10,420	85.2
Couple, two children	14,383	72.1	18,321	91.8
Saskatchewan				
Single employable	4,980	52.5	5,080	53.6
Disabled person	7,740	81.6	8,140	85.8
Single parent, one child	10,110	82.7	11,433	93.5
Couple, two children	13,860	69.4	16,262	81.5
Alberta				
Single employable	4,803	50.6	4,903	51.7
Disabled person	5,940	62.6	6,040	63.7
Single parent, one child	9,006	73.7	10,245	83.8
Couple, two children	13,269	66.5	15,598	78.2
British Columbia				
Single employable	5,776	60.9	5,904	62.2
Disabled person	8,076	85.1	8,204	86.5
Single parent, one child	10,294	84.2	11,687	95.6
Couple, two children	12,743	63.8	15,140	75.9

¹ The low-income cut-offs used in this table are for a size of "area of residence" of 30,000 to 99,999 people; they are calculated on an after-tax/after-transfer basis, and thus will differ from those found in the source reference, where LICOs are calculated on a gross-income basis.

Source: National Council of Welfare, *Welfare Incomes 1990*, Autumn 1991, and estimates by the Economic Council of Canada.

of the benefits they provide, it is important that the programs avoid discouraging people from becoming self-reliant. The major disincentive to self-reliance in social assistance programs is that in determining the amount of benefit for which a person is eligible, some proportion of income from other sources is deducted from the maximum benefit payable, thereby nullifying most or all of the advantage gained by seeking paid work. The dilemma is that if one wanted to reduce this disincentive by lowering the tax-back rate, this would make higher-earning families eligible for social assistance, thereby potentially increasing program costs. In general, the basic tax-back rate in many of these programs tends to be 100 per cent; that is, income received from other sources typically lowers program benefits on a dollar-for-dollar basis.

Over time, various types of earnings exemptions have been introduced so that recipients might retain modest levels of earned income. However, the basic concepts of a modest earnings exemption and a 100-per-cent tax-back rate remain imbedded in the social assistance system in many provinces.

While a 100-per-cent tax-back rate may be appropriate with respect to the treatment of non-earnings income in determining social assistance benefits, its application to earnings below the maximum allowed under the program eliminates any immediate financial incentive to work. Moreover, if work-related expenses cannot be deducted from earnings, poor families will be financially worse off by working than by not working. In addition, marginal tax rates on earnings may exceed 100 per cent when eligibility for other benefits (typically social services) is conditional upon being a social assistance recipient. Finally, to the extent that families are in receipt of two or more income-tested benefits and/or pay income taxes, the combined impact of each program's tax-back rate on earnings can often result in overall tax rates that are substantially higher than those intended by the designers of each program.

In order to assess these often complex interrelationships, we employed a simulation model (INTRAN) to determine the various tax rates facing hypothetical families in a range of different circumstances. For example, Figure 34 illustrates the marginal tax rate on each additional dollar of earnings for unattached individuals in Ontario prior to the major changes in that province's social assistance system in 1989. The marginal tax rates in excess of 100 per cent in the low earnings range (roughly \$3,000 to \$7,000) reflected the combination of the 100-per-cent tax-back rate in social assistance and the payroll taxes paid in respect of unemployment insurance and the Canada Pension Plan. In the

case of a single-parent family, the marginal tax rates on earnings over this range were even higher (Figure 35), based on the assumption that the parent had to purchase child care in order to work. These expenses were not deductible in the calculation of the social assistance benefit at that time.

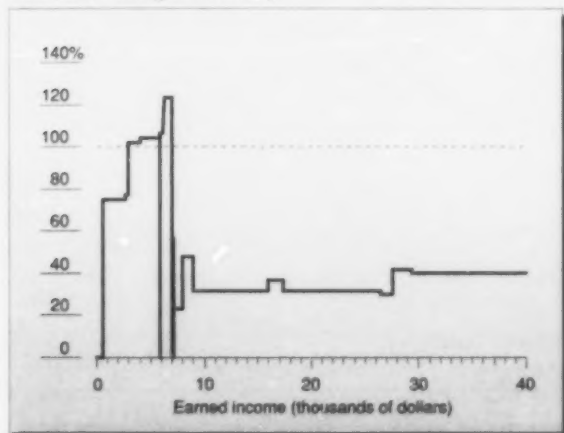
A comparison of Figures 36 and 34 reveals the extent to which the 1989 changes in Ontario's social assistance system reduced marginal tax rates for lower levels of earnings but raised them for somewhat higher levels (i.e., between \$7,000 and \$11,000 per annum), for an unattached individual. The reductions stem largely from a change in the earnings exemptions to 20 per cent, thereby lowering the marginal tax rate on earnings to 80 per cent. The reason for the increase in the tax rate for higher income levels is that as the tax-back rate is lowered, higher ranges of income become subject to tax; increases in basic social-assistance benefits have the same effect on higher income levels.

In summary, these changes reflect a number of the difficulties inherent in reforming any government transfer program, particularly in reducing the tax-back rate and/or increasing benefits.

Reducing the tax-back rate (while leaving the basic benefit level unchanged) increases the range of those eligible to receive benefits, provided tax-back rates are less than 100 per cent. For example, if the basic benefit level were \$10,000 and the tax-back rate 80 per cent, then all those earning up to \$12,500 would be eligible to receive at least some benefits. If the tax-back rate were reduced to 70 per cent, then all those earning up to \$14,286 would be eligible. (Our \$12,000 earner would then receive a benefit of \$1,600 annually.) The impact of such a tax-back reduction on program costs would depend upon the extent to which both new and old recipients might change their work behaviour. While there are no firm data on this, evidence from the Manitoba Basic Annual Income Experiment (Mincome) and from experiments in the United States suggests that the labour-supply response to changes of this magnitude in the tax-transfer system might be small. If this assessment is correct, the implication is that lowering the tax-back rate (providing it was already significantly less than 100 per cent) may not have a large impact on recipients' work behaviour, and program costs would increase. However, these results were based on experimental programs and did not incorporate all possible secondary impacts (such as changes in government revenue and expenditure, in aggregate demand, etc.) that would arise from such changes in an economy-wide program. As a result, it may be premature to reach firm policy conclusions based upon them.

Figure 34

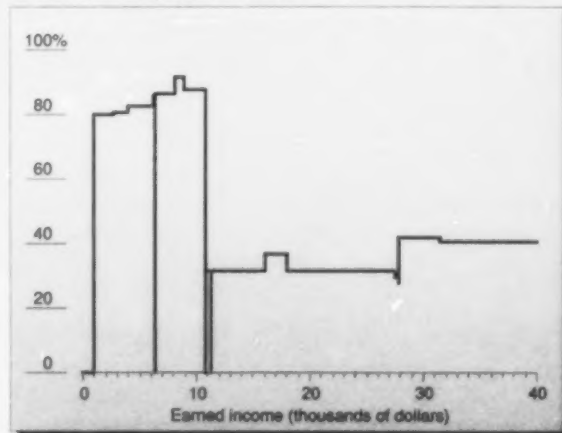
Effective marginal tax rates for unattached individuals, Ontario, 1989 (pre-reform)



Source Estimates by the Economic Council.

Figure 36

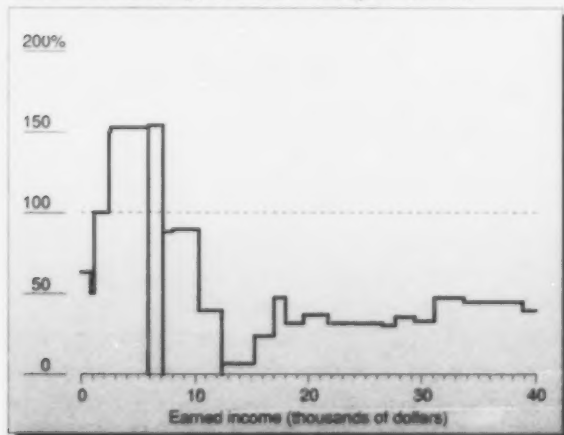
Effective marginal tax rates for unattached individuals, Ontario, 1989 (post-reform)



Source Estimates by the Economic Council.

Figure 35

Effective marginal tax rates for single parents, without child-care subsidy, Ontario, 1989 (pre-reform)



Source Estimates by the Economic Council.

Raising benefit levels without changing the tax-back rate would also increase the number of those eligible to receive benefits. Program costs would invariably rise since all recipients would receive more and there would be no additional incentive to seek employment. (The Mincome evidence, however, also suggests that there may be little disincentive added.)

Employment-related support services

The financial incentives present in government transfer programs have only a limited effect in terms of encouraging work effort, particularly for people who are unqualified for other than low-paying or unstable jobs. Consequently, other forms of support that help people back into meaningful and rewarding employment are needed.

As the proportion of Canadians experiencing earnings difficulties has grown, greater emphasis has been placed on providing, in addition to government transfers, a wide range of employment-related services to those with labour market potential. As the Council remarked in its Sixth Annual Review (1969), "the development of effective methods to help the poor generate adequate income is, in our view, essential to ameliorating the direct human and social consequences of poverty, as well as to reducing its economic costs."

Active support services to achieve such an objective include not only basic job counselling and placement services, but also services aimed at renewing and/or upgrading the education and skills of those experiencing earnings difficulties. These can range from programs designed to enhance the basic life skills, to programs that help workers adjust to a new technology. In addition, there are services that effectively subsidize some of the costs of working or obtaining a new job, including child care and moving expenses.

Both the federal and provincial levels of government have been involved for some time in the provision of job-training programs. At the present time, the main thrust of federal efforts in this area is through the Canadian Jobs Strategy (CJS). Established in 1985, the CJS is focused on those most in need and includes six separate programs. The main ones providing training are: *Job Development*, which assists the long-term unemployed; *Job Entry*, which helps individuals, mainly young people and women, enter or re-enter the labour market; *Skills Shortages*, which helps employers to train workers in skills in which labour shortages exist or are anticipated; and *Skill Investment*, which focuses on workers whose jobs are affected by technological or market change. Total government expenditures on these four programs in 1989-90 were \$1.1 billion. (The other programs focus on labour market adjustment.) Provincial governments also operate their own job-training programs, sometimes alone, sometimes in cooperation with the federal government. In addition, \$269 million of unemployment insurance developmental funds were paid in training benefits in 1989.

Recently, there has been a growing awareness of the need for expanded and more effective job training. In fact, the Canadian Labour Force Development Board was created to advise on training issues and to serve as an advocate for more training, higher-quality training, and more accessible training. As noted earlier, the board has recommended an increase in unemployment-insurance developmental funds to \$1.8 billion for 1992. A number of provinces have already set up, or are in the process of setting up, training boards or other arrangements whereby business, labour, and government work closely in the provision of job training.

The programs operated either jointly or separately by the federal and provincial governments attempt to provide training for a wide range of needs, including basic language and social skills training, workplace training, apprenticeship training, and so on. Most training is provided by the purchase of spaces in courses at community colleges or other provincial institutions, private trainers, or employers. While a large amount of the training given under these programs only prepares participants for entry-level jobs, this may be appropriate for participants in programs such as Job Entry and Job Development.

In light of the rising level of funds being directed towards job training, it is important to determine the effectiveness of these programs. Most programs in Canada are evaluated at some point, and extensive evaluations of training programs in the United States have been undertaken. An examination of these evaluations shows that while job-

training programs can be quite successful, not all of them are equally successful for all clients. Their effectiveness depends on a number of factors, such as the target population from which clients are selected, the program approach (e.g., purchase of training spaces or the provision of workplace training by firms), the matching of training with skill shortages, whether or not training was completed, the extent of counselling, and the existence of adequate income support.

Because many job-training programs (including the Canadian Jobs Strategy) are aimed at helping those most in need, many of the people most likely to succeed are excluded. For example, social assistance recipients are usually less likely to make a successful entry into the job market after training than workers who are temporarily out of work. Of course, even with a low rate of success at finding employment in the short term, programs aimed at long-term social assistance recipients and the severely disadvantaged can often be counted as successful, since the client often receives other benefits (such as improved life or social skills) that may enhance his or her employability in the long run. While their post-program levels of employability and earnings are lower than those of people not on social assistance, their gains relative to their pre-program level of labour market achievement are no less impressive.

The program approach selected can be a very important contributor to success or failure. In many cases, workplace training is more effective than institutional training alone. In part, this is because many clients are high-school dropouts who have already experienced failure in a classroom setting and who cannot easily adapt to that kind of training. For these people, workplace training is more effective. In fact, the appropriate mix of workplace instruction and institutional training, tailored to the specific needs of the client, is crucial for success.

Among the most successful programs are those which aim at matching training with skill shortages. For this kind of training, the involvement of the local private sector is critical in both providing training and identifying local shortages.

In most of the program evaluations examined, clients who completed training courses had more positive outcomes than those who did not. The data on this issue are somewhat ambiguous, however, since in some programs, many clients obtained a job before completing the course.

Counselling can have important consequences by enabling clients to choose the right program. It is a vital part

of the whole job-training and job-search procedure. In many instances, however, counselling by itself has not been shown to be an effective means of improving employability.

Finally, adequate income support is a necessary part of any job-training program. For example, the inability of some clients to afford transportation to the training site has been found to be a reason for failure. However, a number of evaluations of Canadian Jobs Strategy programs found that the level of support should more closely reflect the needs of participants. While some participants discontinued training due to inadequate income support, others indicated that they would have participated in the training programs even if the levels of support had been considerably lower.

It would appear that governments and employers are currently spending about \$4 billion a year on such programs (i.e., less than one fourth of what is spent on UI benefits). Over half of these services are funded under the CJS and the developmental areas of unemployment insurance. It is estimated that well over 300,000 Canadians receive benefits from CJS-funded services each year. In addition, many others are being supported by personal or employer-sponsored training programs, as well as child-care subsidies for working mothers and other forms of support. At the same time, however, there are many poor, working-age Canadians who are not receiving such support.

There have been efforts to integrate these support services with the major income-security programs in an attempt to maximize their combined effectiveness in facilitating self-sufficiency and to provide a common service point for clients. One example is the emergence in 1990 of the "work and employment incentive" program in Quebec, which essentially integrates social assistance and a broad range of employment-related services for those Quebecers deemed employable and in need of government transfers.

Conclusion

Canada's system of income security programs for the working-age population is under considerable strain.

There are a large number of poor Canadians who rely on government transfers for periods of several months, if not years, and who would benefit substantially from services designed to help them adjust to a changing job market. Included in this group are those whom we have character-

ized as the working poor, the hovering poor, and mainstream labour-force members who experience periods of earnings difficulties.

We have seen a tendency towards greater reliance on unemployment insurance by the less disadvantaged and on social assistance by the more disadvantaged. We have also seen that many of these poor are supported by neither unemployment insurance nor social assistance, perhaps reflecting to some degree a considerable self-reliance on the part of some poor Canadians. Many marginal workers must turn to social assistance once their unemployment insurance benefit period is exhausted. Once on social assistance, they may find it difficult to become self-reliant because there are few, if any, financial incentives to increase one's work effort. And there appear to be insufficient opportunities for many social-assistance clients to upgrade their skills or to receive other forms of support, such as child-care subsidies. As seen in Chapter 5, recent research by the Council on unemployment insurance claimants over a 17-year period points to an on-going reliance on this program by many Canadians. This dependency is somewhat anomalous in a program intended to support adjustments back into stable employment.

Neither the unemployment insurance system nor the social assistance programs were intended to deal with large numbers of people in precarious labour-market situations. Thus they cannot be expected to provide solutions in an effective or efficient manner. To a large extent, the insurance principles of unemployment insurance have already been stretched beyond their limit.

Both the unemployment insurance and social assistance programs are only moderately effective in reducing poverty. They tend to reduce the depth of poverty more than its incidence. However, social assistance is much more efficient in this respect than unemployment insurance.

In terms of adequacy, while almost all of the most disadvantaged are supported by social assistance, benefit levels vary substantially across the country. They often fall short of providing a standard of living that comes even close to the poverty threshold chosen for the purpose of our analysis.

Governments are continuously having to face the trade-off between demands for enhanced work-incentive features of social assistance programs for some clients and higher benefit levels for others. Moreover, it is not clear that social assistance clients – or the public at large, for that matter –

fully understand the expectations of the programs with respect to working and achieving self-sufficiency. It seems that by attempting to be the single program of last resort for all people, social assistance serves none of them as well as it might.

Recent reforms in several provinces have attempted to combine features of government transfer programs with those of programs aimed at supporting efforts towards self-

reliance, such as job training. These include the provision of a range of employment-related services to some or all of those seeking help through social assistance.

Finally, it has been shown that job-training programs can be successful when their design meets the needs of clients. This is particularly true when the kind of training offered aided clients to acquire skills in fields where there were skill shortages.

7 A focus on lone parents

Lone-parent families stand out at almost every point in our analysis of the difficulties in achieving self-reliance. Relative to most other groupings of the population, their incidence of poverty is higher; their reliance on income security, greater; and their duration of poverty, longer – particularly in the case of women. Clearly, their vulnerability to poverty and their particular disadvantages with respect to gaining self-sufficiency warrant a more detailed analysis.

Poverty among lone parents

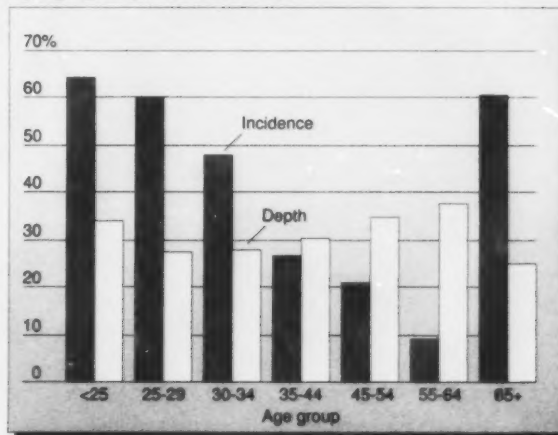
Forty years ago, roughly two thirds of lone parents were widows or widowers. Today, the majority are separated or divorced, and a growing proportion have never married (over 13 per cent in 1986). Over 80 per cent of single-parent families are headed by women, and approximately one in eight children under age 25 live in lone-parent families.

As we have seen, the incidence of poverty among lone-parent families has declined over the past two decades; however, at approximately 37 per cent it continues to be more than three times the rate for all family units. This rate varies dramatically by age (Figure 37). More than 60 per cent of poor lone parents in 1989 were less than 35 years old, and almost all of these were women. The majority of this group had at least one child of preschool age and undoubtedly experienced considerable difficulty in achieving self-reliance while providing care and nurturing to their children. In fact, more than 50 per cent of all lone parents stayed at home to care for their children on a full-time basis, while about 12 per cent had a strong attachment to the labour force. The remainder tended to be either working part-time or studying. We have noted previously that in most provinces, income security benefits in relation to our poverty measures tend to be higher for lone-parent families than for other types of families.

In our exploration of the dynamics of poverty, we noted that the risk of becoming poor upon family breakdown was many times higher than the norm. Additional evidence indicates that, overall, lone parents entered poverty at a very high rate – about three times the rate for the population at large – over the period 1982-86. They also exited more slowly – at only about two thirds the overall average annual rate of 27.4 per cent.

Figure 37

Incidence and depth of poverty¹ for single parents, by age group, Canada, 1988



¹ Based on disposable-income LICOs.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

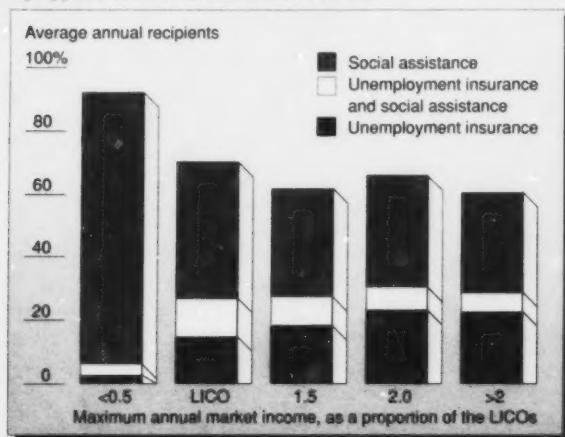
As a result, lone parents tended to stay poor for much longer periods of time than other poor families. Close to 60 per cent of all poor lone parents in 1982 were still poor in 1986 (as compared with 25 per cent of the total working-age population), and it is estimated that their average duration of poverty is in excess of six years.

Income support for lone parents

Given the extent and severity of their poverty, it is not surprising that a large proportion of poor lone parents in Canada relied heavily on the major income-security programs for support, especially on social assistance (Figure 38). Virtually all were women. At the same time, between 6 and 31 per cent of lone parents, depending upon the maximum level of annual family earnings over the five-year period, were also – at least to some extent – beneficiaries of unemployment insurance during their years of poverty.

Figure 38

Income support¹ for single parents during years of poverty, by level of market income and by type of benefit, Quebec, 1982-86



1 As a proportion of the disposable-income LICOs.

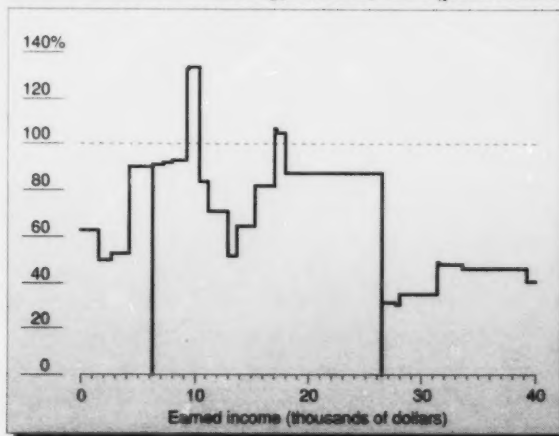
SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

Among those benefiting from social assistance, the level of dependence tended to persist for several years. For example, over 60 per cent of those on social assistance in 1982 remained recipients throughout the period of analysis. On average, only 5 per cent of lone parents on social assistance managed to leave the program in each of the years between 1982 and 1986 (compared with some 12.6 per cent for the working-age population as a whole). Was this because they preferred to stay at home and look after their children, regardless of their employment opportunities? Or was it because social assistance provides little, and sometimes nothing, by way of a financial incentive to work?

Our analysis of the tax/transfer system in Ontario prior to the 1989 reforms vividly demonstrates the high, and even confiscatory, tax rates faced by lone parents who elected to enter the labour market and work part-time (see Figure 35). As previously noted, the recent lowering (to 80 per cent) of the tax-back rate on earnings improved work incentives for all residents of Ontario. Lone parents also benefited from the change allowing the deduction of actual child-care expenses (up to a predetermined ceiling) in calculating the social assistance benefit, thereby enhancing incentives for those unable to obtain any direct child-care subsidy. Together, these changes reduced tax rates on earnings for lone parents with lower levels of income (Figure 39). (The rather high tax-back rates of over 100 per cent

Figure 39

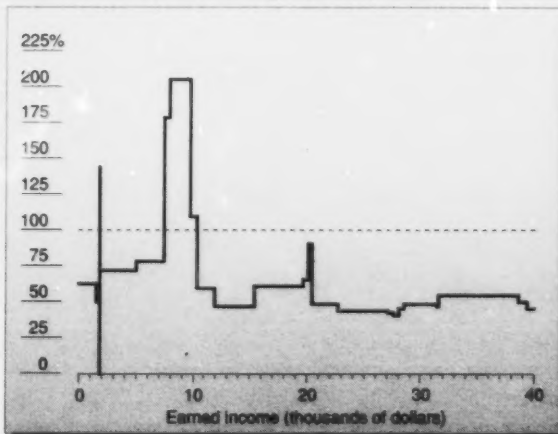
Effective marginal tax rates for single parents, without child-care subsidy, Ontario, 1989 (post-reform)



SOURCE Estimates by the Economic Council.

Figure 40

Effective marginal tax rates for single parents, without child-care subsidy, Quebec, 1989



SOURCE Estimates by the Economic Council.

in this figure, at the \$10,000 income level, result from the limit on the deductibility of child-care expenses in determining the social assistance benefit.) An evaluation of the impact of the overall reduction in tax-back rates on labour market participation is currently under way in Ontario, but the results are not yet available.

Similarly, the combination of social assistance and the "parental wage assistance" program (*Aide aux parents pour leurs revenus de travail*) in Quebec (Figure 40) now yields tax rates on earnings that are considerably below 100 per cent (except in some instances where some lack of integration may still exist). It is still the case, however, that child-care expenses are not deductible in determining social assistance benefits in many provinces and that tax rates on earnings remain exceedingly high for lone parents (and for others).

Economic consequences of separation/divorce

Given the economic difficulties of lone parents in general, and single mothers in particular, we explored in greater detail the changes in family income experienced by those who separated and/or divorced (including dissolutions of common-law relationships) over the period 1982-86. More specifically, we tracked both of the spouses during the period immediately before and after the breakup, to assess the extent to which family income changed. The results are summarized in Figure 41. On average, the incomes of women (adjusted for family size) dropped by about 39 per cent and then rose slightly as some worked more and/or remarried. Even three years after the breakup, however, incomes were 27 per cent below the level that existed the year

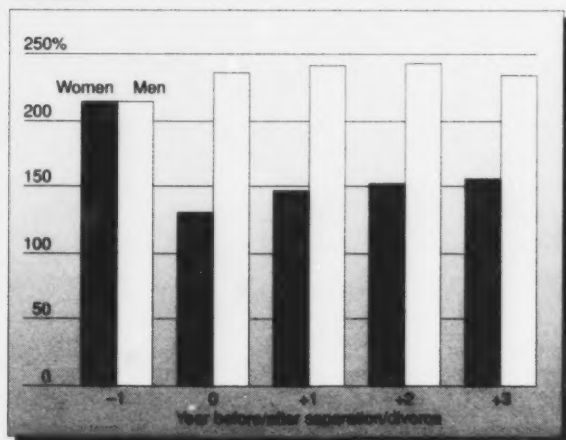
before the breakup. Conversely, the incomes of the male spouse (again adjusted for family size) increased, on average, by some 7 per cent.

Divorce increased the probability of becoming poor for both men and women. However, that increase was much larger for women than for men. The poverty rate of women who were divorced rose from 16 per cent in the year prior to the breakup to 37 per cent in the year after. By contrast, the poverty rate of men increased by only 2 percentage points.

There are two major reasons for the very different impacts of divorce on men and women. First, women's earnings and labour force participation rates are both typically much lower than those of men. Second, in the vast majority of divorces involving children, it is still the mother who is given custody of the children. Furthermore, support payments by divorced men do not play a large role in the income of divorced women. In a review of divorces by the Department of Justice, it was determined that only 68 per cent of divorces involving dependent children in 1989 resulted in a child-support order and that the average order per child was about \$250 per month. There is also considerable evidence of the difficulties experienced by single parents in the enforcement of child-support orders. While improvements have been initiated in several provinces in recent years, there are clearly basic issues to be resolved with respect to the extent and magnitude of the initial support arrangements.

Figure 41

Economic consequences of separation or divorce,¹ Canada



¹ Measured by the average family income as a proportion of disposable-income LICOs.

SOURCE Estimates by the Economic Council, based on data from Statistics Canada.

Child-care subsidies

Child-care assistance is provided by various provincial governments either to eligible parents themselves, in the form of direct and indirect child care subsidies for costs incurred, or to care providers, in the form of operating grants (and in some cases, capital grants). These subsidies are available to two-parent, low-income families as well as to lone parents. However, since lone parents typically do not have someone living with them to assist in caring for the children, the availability or unavailability of such subsidies plays a critical role in determining whether or not a lone parent can participate in the labour force.

While provinces are responsible for regulating and licensing child-care facilities, the majority of nonparental child care is provided outside licensed facilities. In 1988, 264,000 licensed spaces were available, while there were 1.3 million children aged 6 or less whose mother was in the labour force (an estimate of the potential demand for child-care spaces). Licensed facilities may be either commercial (i.e., operated

for a profit) or nonprofit organizations. In 1988, 62 per cent of licensed child-care spaces were provided by nonprofit organizations; however, this figure varied considerably across provinces, ranging from 98 per cent in Saskatchewan to 23 per cent in Alberta.

The services provided also vary greatly in other respects across provinces. Each province has certain tailor-made features to address target populations that it considers to be a policy priority.

The main instrument for federal funding of child care is the Canada Assistance Plan (CAP). Under this program, the federal government reimburses the provinces for 50 per cent of child-care costs that fall within the CAP guidelines for low-income families. Under the "social assistance" provisions of CAP, child-care costs are shared, no matter how child care is provided. Under the "welfare services" provisions of CAP, costs for persons in need are shared, provided the services are dispensed by a provincially approved agency such as a government department, a person or a nonprofit organization, but not including commercial establishments. Thus, in some provinces there is no cost-sharing under CAP for some children in commercial establishments whose parents do not qualify for social assistance. The portion of provincial child-care expenditure refunded by the federal government under CAP varies enormously across provinces, ranging from 46 per cent in Nova Scotia to 14 per cent in Alberta (and even less in the Yukon and Northwest Territories).

There are two fundamental problems with child-care subsidies in many provinces. The first is that the number of spaces subsidized by direct grants to child-care facilities within a given municipality is often limited, so that needy parents must join the queue and wait for available spaces. The second is that in most provinces parents on social assistance who do not have access to a subsidized child-care space or who are not eligible for a direct subsidy cannot deduct child-care costs from income in determining social assistance benefits. Without such deductibility, the effective tax-back rate on earned income (net of child care costs) is often well over 100 per cent, especially for lone parents. This is a major disincentive to work.

The approach to the problem of encouraging increased labour-market participation by mothers varies across provinces. Alberta's approach was to create a heavily subsidized licensed sector for preschoolers, with grants being paid directly to licensed child-care facilities, whereas British Columbia provides subsidies to parents, who can then use whatever facilities they wish.

Ontario and Quebec reformed their child-care subsidy programs in 1989. Although each province acted in quite different ways, both largely removed the disincentives to work. In Ontario, a considerable amount of responsibility for child care is delegated to the municipalities, which are also required to share in the cost of child-care services. Within specified limits, municipalities may decide on the structure and extent to which subsidies will be provided. Without exception, municipalities subsidize spaces within child-care facilities, and applicants must queue up for those spaces. All municipalities set qualifying conditions (such as the minimum number of hours per week during which child care is required), charge minimum user fees, and conduct a needs test set by the province. Until the social assistance reform of 1989 in Ontario, this was the main source of child-care subsidy for low-income families.

The 1989 reform made a fundamental change in that traditional approach. It recognized that child care was a major work-related expense and thus allowed the deductibility of actual expenses from income in determining social assistance benefits. Thus for families receiving such benefits who desire to become financially self-sufficient by getting a job, child care is subsidized by social assistance indirectly, without the need to queue for a subsidized space. These subsidies can amount to over \$4,000 per child.

In Quebec, one ministry is responsible for licensing and providing grants to child-care providers, while another administers direct subsidies to parents. Direct subsidies are income-tested and available to parents with children in approved facilities. The subsidies are also available to those not in the labour force, to allow occasional relief of a parent from child-care responsibilities. In Quebec, as in Ontario, there is a minimum charge for day care. When Quebec's parental wage-assistance program was introduced in 1989, child-care subsidies were integrated into the benefit structure of this program for working families. Thus low-income parents who wish to work and who do not qualify for, or are unable to obtain, a direct child-care subsidy, receive an indirect subsidy through the income support programs (as they are in Ontario). As yet, this type of benefit is not available in other provinces.

Employment and wage discrimination against women

Throughout this report we have identified various disadvantaged groups. In almost every instance (except that of husband-and-wife families, where combined incomes are the relevant measure), women are more seriously disadvantaged than men. This is particularly so in the case of single parents.

The fact that the income earned by women tends to be considerably less than that of men and that the ratio of female to male earnings has improved only slightly over the past 25 years is well documented. Women still earn about 40 per cent less than men.

In part, this situation reflects the fact that a greater proportion of women than of men are in low-skilled jobs. We have already noted that nonstandard jobs typically pay much lower salaries than standard jobs. In 1988, 36 per cent of women were in nonstandard jobs, compared with 23 per cent for men. Women also have tended to enter fields of study that typically led to lower-paying careers and attained lower levels of education, than did men.

However, differences in labour market activity explain only a part of the earnings differences between men and women. Most analysts who work in this area attribute the rest of the wage gap to discrimination. Such discrimination can take the form of paying women less for performing the same work as men or paying lower wages for those occupations in which women predominate than for other occupations requiring the same skill level. It can also take other forms – for example, the different education streams and occupations that children are encouraged to pursue.

The research underlying this report did not include an analysis of wage or other forms of discrimination. We simply note that such discrimination has been found to account for a significant part of the earnings differences between

men and women, and that it is therefore at the root of much of the disadvantage faced by women and by single mothers in particular. We are not making recommendations in this report on these issues, but nonetheless we must observe that efforts to reduce discrimination, if successful, would also reduce the extent of disadvantage faced by women.

Conclusion

The composition of the lone-parent population has changed substantially over the past several years, largely as a result of the changing family values. Its members are considerably younger, more likely to be single, and overwhelmingly female. Lone-parent families are among the highest-risk groups with respect to poverty, especially those headed by women, and they experience considerable difficulty in achieving self-sufficiency.

By and large, public policies and programs in this area are only now starting to respond to these changes. Much remains to be done with respect to eliminating disincentives to work, including lower tax-back rates on earnings and improved child-care subsidies, either through the direct subsidization of child care or through the deductibility of child-care expenses in income security programs. Equity considerations demand that the responsibilities of both parents to support their offspring be reaffirmed and that changes in public policies that effectively reinforce these responsibilities be effected as soon as possible.



8 Conclusions and policy directions

As we have shown in this report, many Canadians who are willing and able to work on a full-time basis are unable to achieve full self-reliance. This situation is the result, in part, of shortcomings in the primary and secondary school systems, which have not satisfactorily prepared their students for employment in today's workplace – an issue that was addressed in the Economic Council's last Statement, *A Lot to Learn*. It was shown, for example, that many of the students who do not continue on to university do not have specific technical or vocational training; they lack adequate information on how to search for jobs and have little sense of what is expected of them in the workplace. The situation has also developed in significant measure because the income security system for working-age Canadians has not been focused sufficiently on preparing them to cope with the kind of transitions needed in a continuously changing job market.

A great many Canadians need to enhance their employability through skill upgrading, more learning, or movement to a new work location. However, the main programs that provide income security for those of working age – unemployment insurance and social assistance – are not primarily aimed at enhancing employability. The UI program focuses on providing income replacement for those temporarily out of work, and many Canadians have developed a dependency on it. Social assistance provides income of last resort for those who have no other means of supporting themselves.

It is also true that governments have been gradually modifying both programs to give greater emphasis to employability. In the case of social assistance, provincial governments have increasingly removed disincentives to work and, together with the federal government, have provided opportunities for skill upgrading. And a growing share of UI spending is being directed at job training and other employment-related services.

Yet, even with these changes Canadian governments spend far more money on providing income replacement (via unemployment insurance) and income assistance (through social assistance) than on implementing measures aimed at enhancing employability, such as counselling, training, relocation, etc. (so-called active measures). In a typical year, income support payments under UI and social assistance are about four times as great as general spending on active measures.

Income support normally looks after basic needs while a person searches for full-time paid employment. But for most people, economic security comes from having a good job, and finding such a job normally requires having the right skills and living in the right place.

Canadians therefore need to recognize that programs focused on active measures must assume centre stage in strengthening income security. This requires that they rethink the income security system from the ground up.

A restructuring of the income security system must take into account the diverse nature of the lower-income population. The volatility of incomes implies that roughly one third of working-age Canadians face the risk of being poor at some time in their working lives. At the same time, some 40 per cent of people who are poor in any year are persistently poor. Thus there is both volatility and stability (i.e., persistent poverty) among the lower-income population. While the most destitute in this group do receive social assistance, a significant portion receive neither unemployment insurance nor social assistance. In other words, there are people who use the income security system extensively and people – poor people – who never use it. For these reasons, and others documented below, we have concluded that the lower-income population is highly diverse. Canada needs social programs that correspond to that diversity.

Here, we focus on the major policies and programs that provide income security for working-age Canadians, including the services aimed at enhancing their self-sufficiency. Does Canada now have the right mix of policies and programs in place to deal with the needs of its lower-income population? Do financial assistance programs help or hinder the transition to self-reliance? We begin with a comment on overall economic performance because the costs of social programs are so sensitive to the level of unemployment, which is, in large measure, determined by conditions in the whole economy.

Reducing poverty through economic management

Canada has not been able to strike a sustainable balance between the objectives of full employment and price

stability over the past two decades. Discussions of shortcomings in this area inevitably lead to much finger-pointing in the political arena, disputes between federal and provincial governments, and criticism by both business and labour. There is no denying, however, that the high level of unemployment that characterized the 1980s and that threatens to be as high in the present decade, constitutes a severe economic and social cost.

Unemployment and the associated poverty are not equally distributed. It is not as if all Canadians share more or less equitably in a necessary burden. Two out of three Canadians will never be poor in their working lives. For the other third, however, spells of joblessness and poverty are a reality. Within this group, there is a growing segment that is poor and/or unemployed for prolonged periods. It is the children of this group who are the most disadvantaged in preparing for their adult lives.

A strategy for fighting poverty therefore requires a basic reconsideration of how the economy is managed. Key components of such a strategy include a further large reduction in the public deficit and a better balance between fiscal and monetary policies. The Economic Council has dealt with these concerns in recent reports, arguing for better coordination between provincial and federal governments (28th Annual Review) and for broader cooperation between labour, business, and government (27th and 28th Annual Reviews and again in *Pulling Together*, the Council's Statement on competitiveness).

The aim of all of these proposals is to enable the economy to sustain higher levels of employment than it did in the 1980s without giving rise to periodic bouts of accelerating inflation. Inflation is pernicious. If ignored, it can compound the evils of unemployment and poverty. But if the number of instruments available to policymakers is broadened so that monetary policy is not the sole instrument for containing inflation, the prospects for achieving a better balance between all economic targets can be realized. If this can be achieved, consistently higher levels of employment and less poverty will be the result.

The effectiveness of both monetary and fiscal policies also depends on the behaviour of the other participants in the economy and on their willingness to share. For example, wage demands in excess of current productivity growth exert upward pressure on prices, thus leading to the possibility of a more stringent monetary policy and, consequently, to higher interest rates and more unemployment. Similarly, the unwillingness of many firms to retain workers whenever demand for their products slackens makes unemployment highly sensitive to demand conditions and

places added pressure on governments to increase expenditures and to raise taxes.

While the management of monetary and fiscal policy does have a strong impact on the performance of the economy, so too does the quality of the labour force. The emerging global economy demands a better-educated and more productive work force. This requires investments in the workers of tomorrow to upgrade their education, their health, and their job skills. Indeed, such programs serve the dual purpose of enhancing macroeconomic performance and reducing poverty.

Income security for working-age Canadians

There is a broad range of social programs that can directly reduce the rate of entry into poverty, facilitate exit from it, and mitigate its worst effects for those who endure it. The Council commented on training programs in *Good Jobs, Bad Jobs* and on Canada's education in *A Lot to Learn*. Here, our main focus is on unemployment insurance and social assistance programs, although this will lead us squarely back to the issue of training and other active labour-market measures.

Because of the constraints on the fiscal side, it is important to identify reforms that do not add to overall public spending, at least at this time. Thus the ideas set out here concentrate on improving the effectiveness of current spending activities.

The strength of the income security system is shown by the fact that substantial numbers of Canadians, even in the face of high unemployment rates – and after three or four years of poverty and reliance on the unemployment insurance, social assistance, and related service programs – are able to become self-sufficient again.

The system also has shortcomings. Many families require support for extended periods of time, and some of the longer-term poor are not supported at all by the major income-security programs. As a result, many Canadians continue to live on incomes that are below the poverty thresholds used in this report. At the same time, many *nonpoor* Canadians are receiving income security benefits. This raises difficult issues about the income-redistribution aspect of the system.

The strains on the system have multiplied as a result of the substantial increases in unemployment levels over the

past four decades. In the 1950s, about 240,000 Canadians were unemployed, on average, representing about 4.2 per cent of the labour force. During the 1980s, however, the number of unemployed averaged 1.2 million a year, and the average unemployment rate rose to 9.3 per cent. The average length of unemployment spells also grew sharply. There are continuing pressures to develop separate systems of support for specific groups affected by long-term unemployment, such as the Program for Older Worker Adjustment.

It was shown in Chapter 5 that people who do not find a job in the first four or five months of unemployment have considerable difficulty finding one later. Those who are in this situation cannot be considered temporarily unemployed. Thus the rationale for applying insurance principles to unemployment seems to wane after this stage. Moreover, a large majority of those who make use of unemployment insurance do so repeatedly over their working years. This suggests that many people lack the skills or some other requisite for stable employment and that they are not being given an incentive or any assistance to acquire such skills.

We noted earlier that the social assistance programs are also under strain. The basic structure in many of the provinces reflects the concept of one program of last resort for all, including the disabled and others not expected to be self-sufficient. Given this clientele, it is not surprising that provincial governments have tended, over the long term, to increase benefit levels at the expense of incorporating significant work incentives into their programs.

However, over the last two decades, changing labour markets and family structures have resulted in a growing proportion of social assistance clients who are willing and able to work but cannot reach self-sufficiency, often for several years. While changes have been made to the system in recent years to enhance work incentives and facilitate re-entry to the labour market, these improvements remain largely marginal.

While our report is focused mainly on the role of governments in providing income security for Canadians, it is appropriate to say a word about the responsibility of individuals. Canadians live in a free society, and this puts a great deal of pressure on everyone, especially on young people. There is much that they can do, as individuals, to reduce the risk of poverty – by staying in school, by delaying child bearing, or by avoiding marriage breakdown. Society as a whole should therefore put more effort into encouraging the kinds of individual decisions that will lead to personal success.

A new direction for income security

Government-sponsored income-security programs reflect collective actions on the part of society to "insure" citizens, explicitly or implicitly, against the risk of having little or no market income at some point in their life. These explicit actions take the form of various programs to insure an individual's income in the event of disabilities arising from accidents in the work place or elsewhere, of short-term unemployment, or of retirement. They include standard insurance features, such as benefits related to previous earnings levels (i.e., income replacement), separate sources of funds (typically financed by payroll taxes), and contribution rates based on liabilities over a fixed period of time. Unemployment insurance benefits are time-limited, while most other social insurance benefits are not.

Social assistance or welfare programs reflect a desire to insure the economic well-being of citizens against such risks as long-term unemployment, low earnings, and disabilities. Sometimes, these benefits are targeted at special groups (e.g., children) or special purposes (e.g., housing). Unlike social insurance programs (unemployment, health, etc.), social assistance programs are typically funded out of consolidated revenues of governments, with no earmarking of tax revenues.

In the past, it was popularly believed that people in need could be conveniently divided into two quite distinct groups: those temporarily out of work (served by unemployment insurance), and the destitute with little or no prospect of working (served by social assistance). But our research shows that a large proportion of Canada's low-income population fits into neither of these categories.

Thus the single most important conclusion to emerge from our analysis is that *Canadians should aim at a fundamental restructuring of the system of income security for working-age people, based on the need for a continuum of support. Such a restructured system would have three fundamental components:*

- in the event of unemployment, income replacement to support the job search process for the some initial period of time; after which*
- an integrated package of income assistance and employment-related services would be provided to encourage and support self-reliance; and*
- dignified income support would be provided to those who are not expected to be self-sufficient.*

Insuring against the risk of job loss

A public unemployment insurance scheme should replace, at some reasonable level, a person's income while he or she seeks a new job. The duration of the benefit period should reflect not only the number of weeks of insurable employment, but also the length of time that is reasonably required for those with the appropriate job skills to find employment. The low probability of returning to work after five months of unemployment and the finding that many people often make repeated claims on the UI system both suggest that many UI claimants do not have the right skills or do not live in the right places to meet the demands of the labour market. Indeed, the fact that many Canadians develop a long-term dependency on unemployment insurance suggests that the current program, by itself, cannot meet the income security needs of all those in the labour market and that some additional form of intervention may be appropriate.

Reform of the unemployment insurance program should emphasize basic insurance principles, including the establishment of an income-replacement period that would be determined both by the length of the qualifying period and by the length of time that is reasonably required, for those with the requisite job skills, to find employment. A basic insurance program should continue to provide benefits on an income-replacement basis (currently 60 per cent of insurable earnings). The principle of approximately one week of benefits for each week of employment over a limited qualifying period seems reasonable.

Such a program would not, however, meet the needs of repeat users. The evidence presented in Chapter 5 suggests that many Canadians are being ill-served by the unemployment insurance program in that the latter is not the right medicine for the patient's ailment. At what point does it become evident that a different treatment is required? Answering that question would require more analysis than we were able to do with our resources.

The main point is that some substantial reduction in the maximum benefit period is called for. Whether this rule should apply after the first UI claim or only after evidence of significant repeat use would have to be determined. This reduction should only be implemented, however, as part of an overall restructuring of the income security system that would include the creation of a new program or programs (which could be either provincial or federal) focusing on work-related transitional support for the unemployed.

Transitional support

In a piecemeal and somewhat ad hoc way, both federal and provincial governments have been moving tentatively in the direction of an Employment Transitions approach for some time. Indeed, a federal/provincial agreement initiated in 1986 established an integrated approach for providing a range of "employability enhancement" services to social assistance recipients. At the same time, the Canadian Jobs Strategy and provincial governments provide a range of counselling, training, and other services to many of the unemployed. In addition, developmental unemployment-insurance funds are being used to help current UI recipients to adjust more quickly to changes in the labour market.

Perhaps more important, however, are some of the fundamental shifts that have occurred in the nature of social assistance programs in certain provinces in recent years. Ontario, in its 1988 review of provincial income-security programs, entitled "Transitions," proposed a wide range of social assistance reforms based on a differentiation of clientele between those who are handicapped and those to whom an offer of "opportunity planning" would be made. In 1989, the structure of social assistance in Quebec was substantially altered to include a new Work and Employment Incentives Program (Actions positives pour le travail et l'emploi), which combines government transfers with a range of employment-related services. In addition, an integrated Parental Wage Assistance program for families with dependent children extends the income-support component to those who work part-time or at low wages, with a tax rate on earnings of only 55 per cent. Similarly, Alberta introduced its Supports for Independence program in 1991.

We suggest that these moves towards integration be accelerated by creating an Employment Transitions program (or set of programs) to provide active labour-force measures, coupled with income assistance, to Canadians experiencing earnings difficulties, including those who have exhausted their basic unemployment-insurance benefits.

Such a program would be intended to replace the employment-related service programs currently present in unemployment insurance, social assistance, and various other programs in order to facilitate the movement of the longer-term unemployed into full-time employment.

In addition to an adequate level of income support, an Employment Transitions strategy would provide, either directly or through linkages with other programs, a full range

of employment-related support services, including counselling, placement services, skill upgrading, child care, and mobility assistance. For example, mobility assistance could be provided as part of the income-assistance structure, with clients being directed to placement services or job-training programs elsewhere. Participation in any aspect of the program should be based on need for that particular aspect. For example, unemployed people who were not eligible for income support could still receive counselling, training, or other employment-related services. The possibilities for integration with existing and future service programs at all levels in the community are extensive.

It is true that UI and social assistance already include a number of services of the kind that would be provided by an Employment Transitions program. However, facilitating such transitions through the provision of employment-related services is not at the heart of either UI or social assistance; rather, it is treated as an "add-on." Yet adjusting to changing labour-market conditions in an increasingly market-driven world is now a large and growing need. It must be recognized as a fundamental objective of economic and social policy. It is absolutely essential that the program that facilitates these transitions aim primarily at helping people to adjust and become self-reliant.

Workers can now expect to have several job transitions during their working years. At each transition, many of these workers will be required to upgrade their skills in order to become re-employed at an income level comparable with that of their last job. Indeed, a large number of workers, many of whom are not "working poor," do not have adequate skills to become readily re-employed should they lose their jobs.

The income assistance component of an Employment Transitions program should be based on the income needs of the family. The determination of benefits should typically be undertaken on a short-term basis (e.g., monthly or quarterly), although longer periods might be appropriate for some recipients (e.g., those on longer-term training programs). To the extent that a family receives benefits over the course of a year, including those working full-time at low wages, the program might be viewed as a guaranteed annual income. Unlike the proposals of the Macdonald Commission, however, the thrust of an Employment Transitions program would not be to "guarantee" one's annual income but to offer a range of supports, the primary purpose of which would be to give families opportunities to enjoy incomes well in excess of the minimum "guarantee" once they are launched on a new job and a more promising economic outlook.

We do not propose specific benefit levels here. However, given that the target clientele for such a program consists of people with employment potential, the expectation is that most clients in this program would not become part of the "long-term" or "hard-core" poor. In the trade-off between the combination of relatively high benefit levels and relatively high tax-back or benefit-reduction rates versus the combination of relatively low benefit levels and relatively low benefit-reduction rates, we believe that, as a general rule, the latter combination is appropriate for people in this type of situation.

Moreover, any requirements for the divestiture of assets should be significantly less onerous than for those who are unable to participate in the labour force (as described below). Clearly, there is some responsibility on the part of the family to save for "a rainy day" and utilize those savings when, in fact, they experience earnings difficulties. Such savings, however, should not include retirement savings, any reasonable amount of housing, or other basic durables.

The conditions for the receipt of benefits under the Employment Transitions program, as outlined above, fall somewhere between those of the current UI and social assistance programs. Currently, unemployment insurance pays benefits as a matter of right for a limited time to the unemployed, based on claimants' previous earnings and employment history; social assistance pays benefits on the basis of income need for an unlimited time but only after the divestiture of almost all assets. As the Employment Transitions program would not be time-limited, some rules would have to be made regarding the divestiture of assets other than housing and household durables, in order to limit its costs. It may also be necessary to require that program participants actively take part in some form of training or skills upgrading. The designers of such a program will have to make some hard choices concerning the trade-offs involved, in a fairly practical way, if program costs are to be contained and if it is to be effective in achieving its objective of enhancing employability.

We have not specified how jurisdiction over the Employment Transitions program should be formulated under a renewed constitution. Arguments can be made in favour of either the federal or provincial level. Whatever decision might be made in that respect, local delivery (i.e., cooperation at the local level between industry, unions, education institutions, and government) would be a key element for success. It would be most disappointing if the debate surrounding the development of the program were to stall because of jurisdictional battles.

Support for those unable to participate fully in the labour force

The existing social assistance programs in Canada are intended to provide a comprehensive safety net of income support for those who face multiple barriers to self-sufficiency, particularly physical and mental handicaps. The system does have its inequities, however. Large disparities in benefits exist between those injured on the job and eligible for workers' compensation benefits and those injured elsewhere, who can only rely on social assistance benefits. There are also significant differences in the benefit levels paid in the various regions of the country. In some provinces, these benefits fall far short of providing a dignified standard of living.

Given the needs of this group and given the trade-off between adequacy of benefits and work incentives, it is clear that the emphasis here should be the opposite of what is proposed for those in the Employment Transitions program (i.e., it should have higher tax-back rates on earnings and it should provide fewer, if any, employment-related services).

It is arguable that single parents with young children should have the flexibility of remaining out of the labour force until their children reach kindergarten age. Parents who do so would be eligible for social assistance payments, as this would enable them to devote their full attention to their children. But single parents should also be eligible for Employment Transitions if they wish to prepare themselves for a future job. The question of child-care costs for those who want to work will be discussed below.

* * * * *

This concludes our approach to a new system of income security programs. There are many administrative complexities associated with providing such a continuum of support. Consistent and comprehensive eligibility criteria would be essential; administrative coordination between programs would be needed to avoid abuse and fraud. Some provinces have already developed procedures to overcome these administrative difficulties.

Our research on poverty dynamics included work on potential costs and financial trade-offs between the three types of program outlined here. Money that would be "saved" by shortening the UI benefit period would help to finance the Employment Transitions programs. People eligible for Employment Transitions would come partly from among those currently on UI and partly from those on social assistance. According to our findings, it is clear that the pro-

posed realignment of the income security system would be feasible without adding to government expenditure. However, our work in this area is incomplete as the Council winds down its activities; while we are confident in our results, more research would be needed to reach the quality desired (see Appendix B for a brief description of this unfinished work). The key accounting model exists at Statistics Canada and can be used for further analysis in that direction if governments so wish.

Incremental change

The fundamental objective of realigning the income security system is to help Canadians become more self-reliant. Fleshing out these proposals will require considerable debate and discussions, and more research. Implementation will therefore take considerable time. In the following sections, we outline a number of first steps that should be implemented in the interim to promote greater self-reliance.

Intensive counselling

Traditionally, the unemployment insurance and social assistance programs have been perceived and, therefore, delivered largely as government transfer schemes. As a result, relatively few active support services have been provided to help Canadians enhance their job skills and find employment. This is not to say that such services do not now exist. There is, in Canada, a comprehensive job "clearing-house" system (the Canada Employment Centres). In addition, a wide variety of support services exist at both the federal and provincial levels, as well as in the voluntary sector. These include programs to enhance basic life-skills, to upgrade basic education and job skills, and to provide child-care and relocation assistance.

However, their coverage of all those who would benefit from them is still far from comprehensive. Moreover, the linkage between these services and government transfer programs are still quite passive in nature, in that most unemployment insurance and social assistance beneficiaries are left largely on their own to seek out and utilize these services.

This lack of integration of government income and employment-related services may not be particularly problematic in the early stages of unemployment. It may also be largely irrelevant for those who can only earn very low incomes. But the burgeoning numbers of those in precarious labour-market situations suggest that considerable efficiencies could be gained by investing in mechanisms

that would help to match people with opportunities to further develop their job skills, as well as with jobs. This, in fact, is one of the distinguishing features of Quebec's new Work and Employment Incentives Program, where more active measures are brought into play when a person applies for financial assistance. *We suggest that intensive employment counselling should be provided to clients of UI and social assistance who have the potential to be self-sufficient.*

The role of the counsellor would consist in advising and encouraging clients in their search for jobs and for training and other opportunities to acquire relevant skills, and in their attempts to obtain child care and to access other services appropriate to their integration into the labour force. It should be the clients' responsibility, however, to apply for and obtain these services, not that of the counsellor. The additional administrative costs associated with these services would, in our view, pay substantial "dividends" by resulting in greater equity and in a more effective income-security system for the working-age population.

Tax rates

The trade-off between income adequacy and work incentives is a serious challenge in reforming transfer programs targeted at the poor. While some progress has been made in reducing tax rates on earnings, they remain too high – as high as 100 per cent in most social assistance programs. But if there is to be any economic incentive at all for recipients to increase their work effort, such tax-back rates must be at least less than 100 per cent. It is also important that the interactions between programs be taken into consideration in terms of the "net" tax rate.

While initial earnings exemptions may reduce the average tax rate of a program, it is the marginal tax rate that influences one's incentive to work an additional hour or to seek a higher-paying job. Thus, *in any expansion of government transfer programs targeted at those who experience earnings difficulties, reductions in tax rates on earnings should generally be given priority over increases in benefits levels.* In the case of those who are not expected to work, the priority should be to increase benefits, given the importance of providing a dignified standard of living for this group.

Supporting children

Despite the decline in the incidence of poverty among families with children over the past two decades, child poverty continues to be a major concern. As we have seen, lone-parent families, especially those headed by women, stand out from all other groups in terms of social disadvantage and difficulties with respect to becoming self-sufficient. In our view, a greater effort should be expended to hold the absent parent accountable for the economic (and even the social) well-being of his or her offspring. Some progress has been made over the past few years in enforcing this accountability. However, more could be done to ensure that the support provided by the absent spouse is commensurate with these responsibilities.

The federal Department of Justice is currently consulting a cross-section of interest groups on the issue of further codifying child-support awards granted by the courts under the Divorce Act. We hope that this will result in a more comprehensive and fairer system of parental support for children.

We have also noted the continuing disincentives faced by single parents who rely on social assistance benefits when they are called upon to combine work effort and child-care responsibilities. Clearly, the deductibility of child-care expenses from earnings would result in a fairer, more equitable system for all families with children and, in the case of lone parents, would encourage (or at least not discourage) greater work effort. For these reasons, *actual child-care expenses (below some reasonable maximum) should be deductible from earnings in government transfer programs for those experiencing earnings difficulties.*

* * * * *

Poverty in Canada is not confined to an underclass. It can happen to anyone who is poorly educated, who is chronically ill, who loses a job or whose marriage breaks down. It is a problem that affects many people who can and want to work. By themselves, unemployment insurance and social assistance cannot meet the full brunt of these challenges. They help to diminish hardship but they fail to provide the springboard to economic security – that is, a steady job with decent pay. That is why we believe the income security system must be fundamentally altered to help people adjust to changing conditions and become self-reliant.



Appendices



A Seasonal considerations

The seasonality of employment in some industries results in some workers being laid off for some period at the same time each year. The extent of this seasonality is important because it has implications for the conclusions that we have drawn from the data on repeat use of unemployment insurance. If, for example, the latter were attributable in large part to seasonal factors, then it would be incorrect to infer that the UI system has done little to reintegrate people into a stable pattern of employment, and the policy prescription would be quite different than if repeat usage were largely among nonseasonal workers.

We attempted to separate the repeat users in seasonal industries from the data presented above. Unfortunately, because of technical problems with the data, we were unable to do this. While it is clear that many workers in seasonal industries (e.g., construction, fishing, and forestry, to mention some of the more important ones) experience repeated spells on unemployment insurance, not all workers in those industries are in seasonal jobs. Similarly, some work in other industries is also seasonal in nature. We would expect seasonal workers to experience quite extensive repeat use of unemployment insurance, and this is confirmed by the data in Figure 25 for the Atlantic region, where fishing – a highly seasonal industry – is particularly important.

There are several ways in which the proportion of unemployment insurance repeaters who are seasonal workers can be estimated. One way would be to assume that all unemployment in "seasonal" industries is seasonal and accounts for all seasonal unemployment. Special tabulations done by Statistics Canada for the Forget Commission revealed that seasonal industries accounted for 16 per cent of employment and 22 per cent of unemployment. We also know that for any given year, about 80 per cent of unemployment insurance claimants are repeat users and about 45 per cent are on their fifth claim or higher. If we assume that all of those unemployed in seasonal industries are repeaters, then seasonal industries would account for about 28 per cent of all repeaters.

Another way would be to calculate the proportion of all repeaters who started a spell on unemployment insurance about 52 weeks after the start of the last spell. Such estimates have been done for a study by Employment and Im-

migration Canada, where seasonal repeaters were defined to be those who started a spell on unemployment insurance 48 to 56 weeks after starting their last spell. The study found that in 1983, some 35 per cent of all repeaters did so. These estimates need to be corrected, however, because not all of those who repeat within 48 to 56 weeks do so for seasonal considerations. That is, it is important to differentiate between those who have a repeat spell on unemployment insurance within the 48- to 56-week period because they are "seasonal" workers (i.e., workers who face a slack period each year because of climatic or market conditions) and those who have a repeat spell for other reasons.

There are several reasons why some workers have a repeat spell on unemployment insurance within 48 to 56 weeks. One reason, of course, is that they are seasonal workers. But there are many who do so for nonseasonal reasons. Nonseasonal repeaters do so at varying lengths of time. For example, 5.8 per cent of all UI claimants in 1983 repeated after 56 weeks but before 64 weeks, and 4.5 per cent did so after 63 weeks but before 73 weeks. Thus we would expect that about the same number (about one-quarter of all those repeating within 48 to 56 weeks) would do so for similar nonseasonal reasons.

Furthermore, unemployment insurance rule changes in 1977, which made entrance requirements generally more restrictive (the "variable" entrance requirements), shifted most short-term repeaters into the 48-to-56-week category. In 1976, 16.3 per cent of all UI claimants were in that category, while 10.7 per cent were shorter-term repeaters. By 1979, shorter-term repeaters dropped to 2.6 per cent and those repeating within 48 to 56 weeks increased to 22.5 per cent. Thus if we assume that at least one quarter of repeaters within the 48- to 56-week period would do so because of unemployment insurance rules, and another one-quarter for other nonseasonal reasons, we are left with an estimate of some 18 per cent of all repeaters being repeaters for seasonal reasons (i.e., seasonal workers).

From these admittedly rather crude calculations, it seems evident that a very significant portion of repeat use of unemployment insurance is the result of factors other than seasonality, and our conclusions are unchanged.



B Simulating policy options

Simulations of policy options for Unemployment Insurance, Social Assistance and Employment Transitions programs were run using Statistics Canada's Social Policy Simulation Database/Model.¹ This is an accounting model that allows one to test the impact on program costs, numbers of families affected and income distributions of changes in program design, benefit rates, etc. (However it does not take changes in behaviour resulting from these program modifications into account.) This is a sophisticated and fairly complex model, and the simulation of changes to program design of the type we were considering required extensive programming and testing, and therefore required considerable time to achieve satisfactory results.

The simulations that we have run were designed to test the combination of Employment Transitions benefit and tax-

back rates that would be consistent with various modifications to UI such as adjusting the maximum benefit period and/or restricting benefits for repeaters. These simulations were also designed to identify winners and losers, including winning and losing regions.

This exercise provided analysis that we believe is directionally correct and roughly of the appropriate magnitude. It convinced us that the program changes proposed in this report are feasible without adding to government expenditure. However the fact that we did not have enough time to satisfactorily model some aspects of the ET programs, persuaded us to refrain from publishing the results obtained to date. The major shortcoming of the analysis was that the impact on income distributions and regional distributions of program benefits appeared to be less than satisfactory.

¹ Version 4.21 of this model, which is based largely on 1986 data was used. We did not have time to obtain the latest version (5.0) which is based on 1988 data and would have given better estimates of the impacts.



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